

Karnataka Budget Analysis 2023-24

The Chief Minister of Karnataka, Mr. Siddaramaiah presented the Budget for the state for the financial year 2023-24 on July 7, 2023.

Budget Highlights

- The **Gross State Domestic Product (GSDP)** of Karnataka for 2023-24 (at current prices) is projected to be Rs 25.7 lakh crore, amounting to a growth of 17.7% over the revised estimates of 2022-23.
- **Expenditure (excluding debt repayment)** in 2023-24 is estimated to be Rs 3,05,306 crore, an increase of 12% over the revised estimates of 2022-23. In addition, debt of Rs 22,441 crore will be repaid by the state.
- **Receipts (excluding borrowings)** for 2023-24 are estimated to be Rs 2,38,660 crore, an increase of 12% as compared to the revised estimate of 2022-23. In 2022-23, receipts (excluding borrowings) are estimated to exceed the budget estimate by Rs 22,563 crore (increase of 12%).
- **Revenue deficit** in 2023-24 is estimated to be 0.5% of GSDP (Rs 12,523 crore). In 2022-23, the state's revenue deficit is estimated to be 0.3% of GSDP (Rs 5,996 crore), lower than the budget estimate of 0.7% of GSDP (Rs 14,699 crore).
- **Fiscal deficit** for 2023-24 is targeted at 2.6% of GSDP (Rs 66,646 crore). In 2022-23, as per the revised estimates, fiscal deficit is expected to be 2.8% of GSDP, similar to the budget estimate.

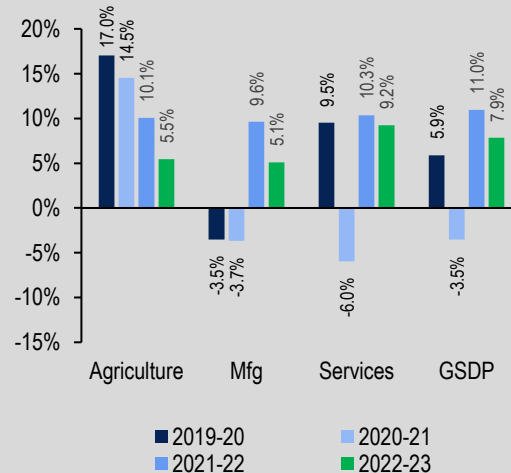
Policy Highlights

- **Revenue augmentation:** The additional excise duty on Indian Made Liquor will be increased by 20%. The additional excise duty on beer will be increased from 175% to 185%. To improve tax administration, four new commercial tax divisions will be established.
- **Five guarantees:** The state government will implement five guarantees: (i) free bus travel for women under Shakti scheme, (ii) free electricity up to 200 units for domestic consumers under Gruha Jyoti, (iii) Rs 2,000 monthly financial assistance to woman head of family under Gruha Lakshmi, (iv) 5kg additional foodgrains to eligible persons under Annabhagya, and (v) monthly unemployment allowance of Rs 3,000 for degree holders and Rs 1,500 for diploma holders under Yuvanidhi.
- **Metro connectivity:** In the next three years, metro network will be expanded from 70 km to 176 km. The construction of the airport metro line will be expedited and it will be operationalised by 2026.
- **Gig workers:** Life and accidental insurance of two lakh rupees each will be provided for full/part time delivery personnel of e-commerce companies. The premium will be paid by the state government.

Karnataka's Economy

- **GSDP:** In 2022-23, Karnataka's GSDP (at constant prices) is estimated to grow at 7.9% as compared to 11% in 2021-22. In 2022-23, India's GDP is estimated to grow at 7.2%.
- **Sectors:** In 2022-23, the state's services sector is estimated to grow by 9.2% followed by agriculture (5.5%) and manufacturing (5.1%). Agriculture, manufacturing, and services are estimated to contribute 16%, 20%, and 64% to Karnataka's economy respectively (at current prices) in 2022-23.
- **Per capita GSDP:** The per capita GSDP of Karnataka in 2022-23 (at current prices) is estimated at Rs 3,31,981 an increase of 13% over 2021-22. In comparison, the national per capita GDP is estimated to be Rs 1,96,983 in 2022-23.

Figure 1: Growth in GSDP and sectors in Karnataka at constant prices (2011-12)



Note: These numbers are as per constant prices (2011-12) which implies that the growth rate is adjusted for inflation.
Sources: MOSPI; PRS.

Budget Estimates for 2023-24

- **Total expenditure (excluding debt repayment)** in 2023-24 is targeted at Rs 3,05,306 crore. This is an increase of 12% over the revised estimate of 2022-23. This expenditure is proposed to be met through **receipts (excluding borrowings)** of Rs 2,38,660 crore and net borrowings of Rs 63,377 crore. Total receipts for 2023-24 (other than borrowings) are expected to register an increase of 12% over the revised estimates of 2022-23.
- **Revenue deficit** in 2023-24 is estimated to be 0.5% of GSDP (Rs 12,523 crore). In 2022-23, as per revised estimates, revenue deficit is expected to be 0.3% of GSDP (Rs 5,996 crore), lower than the budget estimate of 14,699 crore (0.7% of GSDP). **Fiscal deficit** for 2023-24 is targeted at 2.6% of GSDP (Rs 66,646 crore) which is within the limit of 3.5% of GSDP set by the central government (of which 0.5% of GSDP becomes available on undertaking power sector reforms).
- In 2022-23, both revenue and fiscal deficit are expected to be lower than the budget estimate. This could have been driven by receipts (excluding borrowings) which are expected to be 12% higher than the budget estimate while expenditure (excluding debt repayment) is estimated to be 9% higher.

Table 1: Budget 2023-24 - Key figures (in Rs crore)

Items	2021-22 Actuals	2022-23 BE	2022-23 RE	% change from BE 22- 23 to RE 22- 23	2023-24 BE	% change from RE 22- 23 to BE 23- 24
Total Expenditure	2,75,483	2,65,720	2,89,653	9%	3,27,747	13%
(-) Repayment of debt	13,972	14,179	15,976	13%	22,441	40%
Net Expenditure (E)	2,61,512	2,51,541	2,73,677	9%	3,05,306	12%
Total Receipts	2,76,535	2,61,977	2,79,540	7%	3,24,478	16%
(-) Borrowings	80,641	72,000	67,000	-7%	85,818	28%
Net Receipts (R)	1,95,895	1,89,977	2,12,540	12%	2,38,660	12%
Fiscal Deficit (E-R)	65,617	61,564	61,137	-1%	66,646	9%
as % of GSDP	3.8%	2.8%	2.8%		2.6%	
Revenue Deficit	13,666	14,699	5,996	-59%	12,523	109%
as % of GSDP	0.8%	0.7%	0.3%		0.5%	
Primary Deficit	40,634	32,170	31,742	-1%	32,619	3%
as % of GSDP	2.4%	1.5%	1.5%		1.3%	

Note: BE is Budget Estimates; RE is Revised Estimates. Fiscal deficit in 2021-22 is lower than budget documents as transfer of Rs 420 crore to contingency fund has not been included in total expenditure.

Sources: Overview of Budget, Annual Financial Statement, Karnataka Budget 2023-24; PRS.

Expenditure in 2023-24

- **Revenue expenditure** for 2023-24 is proposed to be Rs 2,50,933 crore an increase of 15% over the revised estimate of 2022-23. This includes the expenditure on salaries, pensions, interest, grants, and subsidies. In 2022-23, revenue expenditure is estimated to be 7% higher than budget estimate.
- **Capital outlay** for 2023-24 is proposed to be Rs 50,989 crore, a decrease of 3% from the revised estimate of 2022-23. Capital outlay indicates the expenditure towards creation of assets. In 2022-23, capital outlay is estimated to be 21% higher than budget estimate.

Expenditure on Five Guarantees in 2023-24

The state government will implement five guarantees from 2023-24 onwards. The annual cost of these guarantees has been estimated to be Rs 52,000 crore. In 2023-24, the state has budgeted to spend Rs 39,825 crore (for July-March) for these schemes. The spending on these schemes accounts for 16% of Karnataka's budgeted revenue expenditure in 2023-24. Gruha Lakshmi, under which financial assistance of Rs 2,000 per month will be given to the woman head of a family, is expected to cost Rs 17,500 crore in 2023-24. It accounts for 44% of the budgeted expenditure on the five schemes in 2023-24. Annabhagya (for providing additional foodgrains) has been allocated Rs 10,275 crore.

Table 2: Expenditure budget 2023-24 (in Rs crore)

Items	2021-22 Actuals	2022-23 BE	2022-23 RE	% change from BE 22-23 to RE 22-23	2023-24 BE	% change from RE 22-23 to BE 23-24
Revenue Expenditure	2,09,428	2,04,587	2,18,356	7%	2,50,933	15%
Capital Outlay	47,874	43,573	52,766	21%	50,989	-3%
Loans given by the state	4,209	3,382	2,555	-24%	3,385	32%
Net Expenditure	2,61,512	2,51,541	2,73,677	9%	3,05,306	12%

Sources: Annual Financial Statement, Karnataka Budget 2023-24; PRS.

Committed expenditure: Committed expenditure of a state typically includes expenditure on payment of salaries, pensions, and interest. A larger proportion of budget allocated for committed expenditure items limits the state's flexibility to decide on other expenditure priorities such as capital outlay. In 2023-24, Karnataka is estimated to spend 14% of its revenue receipts on interest payments, and 11% of revenue receipts on pension.

Table 3: Committed Expenditure in 2023-24 (in Rs crore)

Items	2021-22 Actuals	2022-23 BE	2022-23 RE	% change from BE 22-23 to RE 22-23	2023-24 BE	% change from RE 22-23 to BE 23-24
Pensions	20,666	24,016	24,078	0%	25,116	4%
Interest Payment	24,984	29,395	29,395	0%	34,027	16%

Note: Data on salaries was not available.

Sources: FRBM Statement, Annual Financial Statement, Karnataka Budget 2023-24; PRS.

Sector-wise expenditure: The sectors listed below account for **64%** of the total expenditure on sectors by the state in 2023-24. A comparison of Karnataka's expenditure on key sectors with that by other states is shown in Annexure 1.

Table 4: Sector-wise expenditure under Karnataka Budget 2023-24 (in Rs crore)

Sectors	2021-22 Actuals	2022-23 BE	2022-23 RE	2023-24 BE	% change from RE 22-23 to BE 23-24	Budget Provisions (2023-24)
Social Welfare and Nutrition	17,790	15,528	17,487	34,834	99%	<ul style="list-style-type: none"> Rs 17,500 crore has been allocated for Gruha Lakshmi scheme.
Education, Sports, Arts, and Culture	30,774	32,018	33,494	33,271	-1%	<ul style="list-style-type: none"> Rs 13,530 crore has been allocated for block grants for various districts. Rs 1,938 crore has been allocated for Sarva Shiksha Abhiyana.
Energy	17,645	12,226	14,829	22,662	53%	<ul style="list-style-type: none"> Rs 13,143 crore has been allocated for subsidies. Rs 9,000 crore has been allocated for Gruha Jyothi scheme.
Agriculture and Allied Activities	20,769	17,039	16,351	22,158	36%	<ul style="list-style-type: none"> Rs 10,275 crore has been allocated for Annabhagya scheme.
Irrigation and Flood Control	21,054	20,652	22,933	19,057	-17%	<ul style="list-style-type: none"> Rs 15,248 crore has been allocated for capital outlay on medium irrigation.
Transport	14,748	12,105	18,868	15,023	-20%	<ul style="list-style-type: none"> Rs 8,208 crore has been allocated for capital outlay on roads and bridges. Rs 2,800 crore has been allocated for Shakthi scheme.
Health and Family Welfare	15,345	14,368	13,576	14,761	9%	<ul style="list-style-type: none"> Rs 2,166 crore has been allocated for block grants. Rs 1,586 crore has been allocated for psychiatric clinics, hospitals, and blood banks.
Welfare of SC, ST, OBC, and Minorities	9,526	9,180	11,100	10,972	-1%	<ul style="list-style-type: none"> Rs 4,300 crore has been allocated for welfare of scheduled castes. Rs 1,520 crore has been allocated for welfare of scheduled tribes.
Police	6,801	8,007	8,946	10,011	12%	<ul style="list-style-type: none"> Rs 6,568 crore has been allocated for police establishment in existing districts.
Rural Development	8,427	9,295	11,491	9,494	-17%	<ul style="list-style-type: none"> Rs 2,117 crore has been allocated for 15th Finance Commission grants to gram panchayats. Rs 1,700 crore has been allocated for maintenance grants to taluka panchayats.
% of total expenditure on all sectors	63%	61%	62%	64%		

Source: Annual Financial Statement, Karnataka Budget 2023-24; PRS.

Receipts in 2023-24

- **Total revenue receipts** for 2023-24 are estimated to be Rs 2,38,410 crore, an increase of 12% over the revised estimate of 2022-23. Of this, Rs 1,85,803 crore (78%) will be raised by the state through its **own resources**, and Rs 52,607 crore (22%) will come **from the centre**. Resources from the centre will be in the form of state's share in central taxes (16% of revenue receipts) and grants (6% of revenue receipts).
- **Devolution:** In 2023-24, state's share in central taxes is estimated at Rs 37,252 crore, an increase of 8% over the revised estimate of 2022-23.
- **Grants from the centre** in 2023-24 is estimated at Rs 15,355 crore, a decrease of 33% from the revised estimates for 2022-23. This could be due to decrease in GST compensation grants which are estimated to decrease by 78% in 2023-24 as compared to the revised estimate of 2022-23. In 2022-23, as per revised estimate, GST compensation grants are pegged at Rs 10,548 crore as compared to Rs 5,000 crore at the budget estimate stage. However, if GST compensation grants were to be excluded, grants from the Centre to the state are expected to decrease 28% at the revised estimate stage as compared to the budget estimate. Under Jal Jeevan Mission, Karnataka will receive only Rs 10 crore in 2022-23 as per revised estimate, against the budget estimate of Rs 1,500 crore.
- **State's own tax revenue:** Karnataka's total own tax revenue is estimated to be Rs 1,73,303 crore in 2023-24, an increase of 20% over the revised estimate of 2022-23. Own tax revenue as a percentage of GSDP is estimated at 6.8% in 2023-24. For 2022-23, the state had estimated this ratio at 5.8%, however, as per revised estimates, it is expected to be higher at 6.6%. In 2021-22, own tax to GSDP ratio was 7%.

Table 5: Break-up of the state government's receipts (in Rs crore)

Sources	2021-22 Actuals	2022-23 BE	2022-23 RE	% change from BE 22-23 to RE 22-23	2023-24 BE	% change from RE 22-23 to BE 23-24
State's Own Tax	1,20,739	1,26,883	1,43,883	13%	1,73,303	20%
State's Own Non-Tax	11,777	10,941	10,941	0%	12,500	14%
Share in Central Taxes	33,284	29,783	34,596	16%	37,252	8%
Grants-in-aid from Centre	29,962	22,281	22,940	3%	15,355	-33%
Revenue Receipts	1,95,762	1,89,888	2,12,360	12%	2,38,410	12%
Non-debt Capital Receipts	133	89	180	101%	250	39%
Net Receipts	1,95,895	1,89,977	2,12,540	12%	2,38,660	12%

Note: BE is Budget Estimates; RE is Revised Estimates. State's own tax revenue has been adjusted to include GST compensation grants as grants from the Centre.

Sources: Annual Financial Statement, Karnataka Budget 2023-24; PRS.

- In 2023-24, State GST (SGST) is estimated to be the largest source of own tax revenue, contributing to 44% of the total. SGST revenue is estimated to increase by 20% in 2023-24 over the revised estimate of 2022-23. In 2022-23, SGST revenue is expected to be 19% higher at the revised estimate stage as compared to the budget estimate.
- State excise comprises 21% of Karnataka's own tax revenue in 2023-24. It is estimated to increase by 13% in 2023-24, as compared to the revised estimate of 2022-23.
- Revenue from stamps duty and registration fees, sales tax/VAT, and taxes on vehicles is estimated to increase by 47%, 13%, and 28% respectively in 2023-24 over the revised estimates of 2022-23.

Table 6: Major sources of state's own-tax revenue (in Rs crore)

Taxes	2021-22 Actuals	2022-23 BE	2022-23 RE	% change from BE 22-23 to RE 22-23	2023-24 BE	% change from RE 22-23 to BE 23-24
State GST	49,929	53,220	63,220	19%	76,150	20%
State Excise	26,378	29,000	32,000	10%	36,000	13%
Stamps Duty and Registration Fees	14,020	15,000	17,000	13%	25,000	47%
Sales Tax/ VAT	19,274	17,640	18,640	6%	21,100	13%
Taxes on Vehicles	6,915	8,007	9,007	12%	11,500	28%
Taxes and Duties on Electricity	2,724	2,823	2,823	0%	2,049	-27%
Land Revenue	181	43	43	0%	104	143%
GST Compensation Grants	8,976	5,000	10,548	111%	2,350	-78%
GST Compensation Loans	18,109	-	-	-	-	-

Sources: Annual Financial Statement, Detailed Estimates of Revenue and other Receipts, Karnataka Budget 2023-24; PRS.

Deficits, Debt, and FRBM Targets for 2023-24

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

Revenue deficit: It is the difference of revenue expenditure and revenue receipts. A revenue deficit implies that the government needs to borrow to finance those expenses which do not increase its assets or reduces its liabilities. The KFRA necessitated the state government to eliminate revenue deficit by 2006. Since 2020-21, Karnataka has consistently reported revenue deficit. The budget estimates a revenue deficit of Rs 12,523 crore (or 0.5% of the GSDP) in 2023-24. In 2022-23, the revenue deficit is expected to be Rs 5,996 crore (0.3% of GSDP) as per revised estimates, lower than the budgeted revenue deficit of Rs 14,699 crore (0.7% of GSDP).

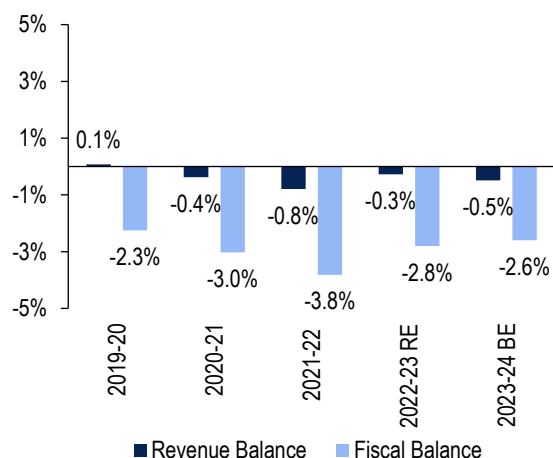
Fiscal deficit: It is the excess of total expenditure over total receipts. This gap is filled by borrowings by the government and leads to an increase in total liabilities. In 2023-24, the fiscal deficit is estimated to be 2.6% of GSDP. For 2023-24, the central government has permitted fiscal deficit of up to 3.5% of GSDP to states, of which 0.5% of GSDP will be available only upon carrying out certain power sector reforms. As per the revised estimates, in 2022-23, the fiscal deficit of the state is expected to be 2.8% of GSDP, which is marginally lower than the budget estimate of 2.82% of GSDP.

Outstanding liabilities: Outstanding liabilities are the accumulation of total borrowings at the end of a financial year. It also includes any liabilities on the public account. At the end of 2023-24, outstanding liabilities of the state are estimated to be 23% of GSDP. Outstanding liabilities are estimated to decrease from a high of 27.5% of GSDP in 2021-22.

Off-budget Borrowings

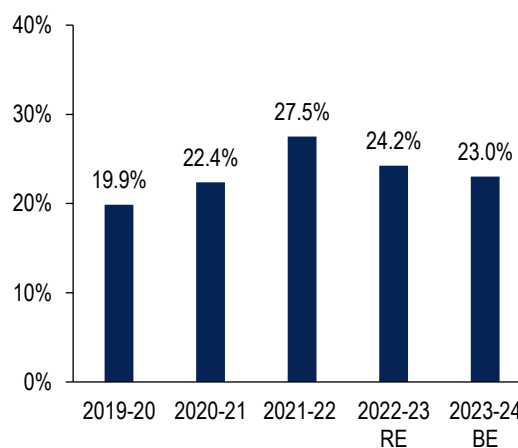
Off-budget borrowings refer to borrowings made by government-owned entities such as special purpose vehicles and public sector enterprises, debt servicing of which is done through budgetary resources. This causes debt and deficit numbers to be understated. As on March 31, 2022, Karnataka's outstanding off budget borrowings stood at Rs 16,682 crore. Krishna Bhagya Jala Nigam Ltd had the highest off-budget borrowings of Rs 6,252 crore followed by Karnataka Neeravari Nigama Ltd (Rs 3,673 crore), and Cauvery Neeravari Nigama Limited (Rs 2,768 crore). The 15th Finance Commission recommended against resorting to off-budget borrowings. It noted that such practices are against the norms of fiscal transparency and adversely impact fiscal sustainability. It observed that these obligations must be cleared in a timely manner by mobilising additional resources.

Figure 2: Revenue and Fiscal Balance (% of GSDP)



Note: BE is Budget Estimates; RE is Revised Estimates.
Sources: Karnataka Budget Documents of various years; PRS.

Figure 3: Outstanding liabilities (% of GSDP)



Note: Outstanding liabilities include GST compensation loans.
Sources: Karnataka Budget Documents of various years; PRS.

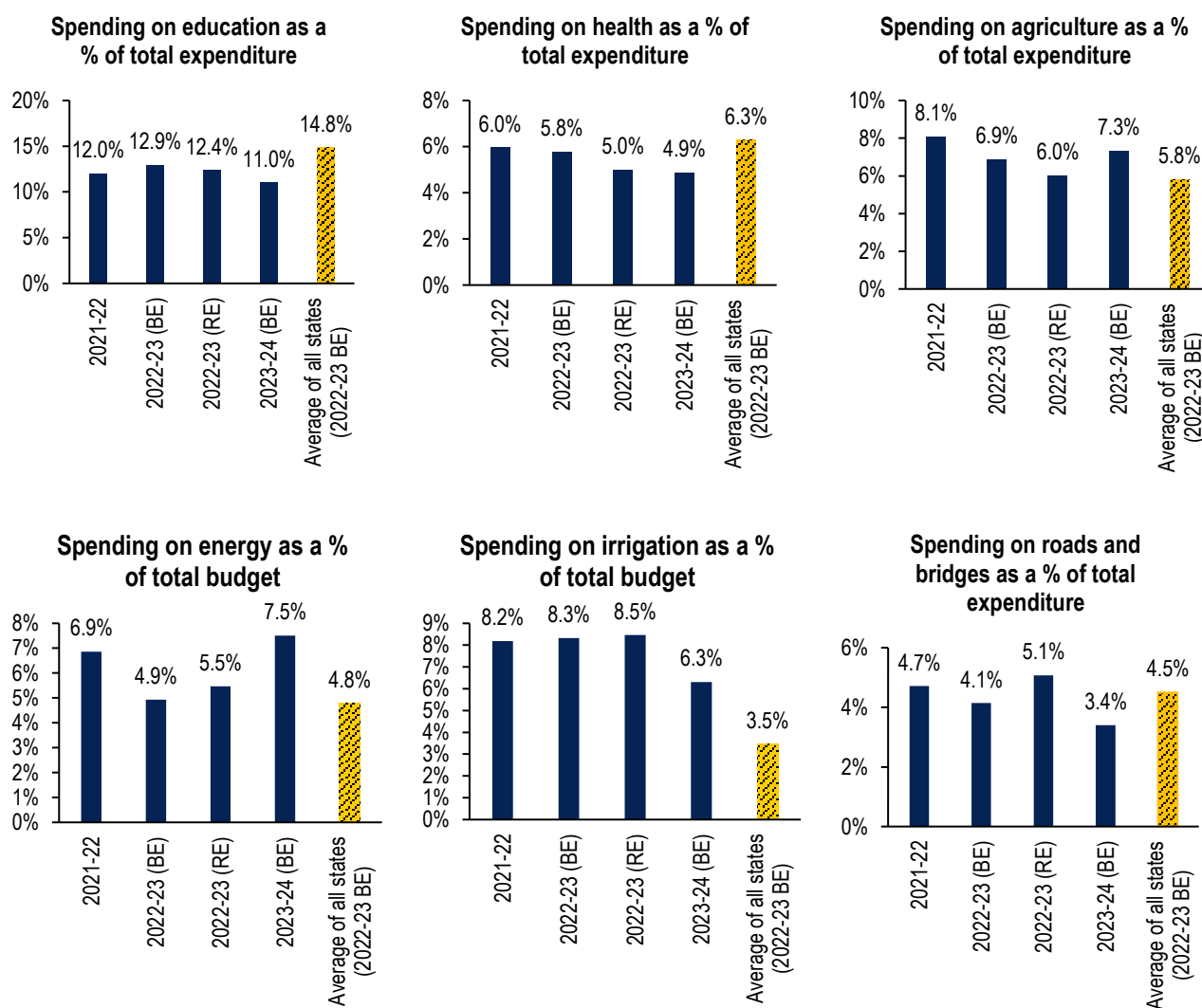
Outstanding Government Guarantees: Outstanding liabilities of states do not include a few other liabilities that are contingent in nature, which states may have to honour in certain cases. State governments guarantee the borrowings of State Public Sector Enterprises (SPSEs) from financial institutions. Karnataka has outstanding guarantees of Rs 33,192 crore (1.9% of GSDP) as on March 31, 2022.

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Annexure 1: Comparison of states' expenditure on key sectors

The graphs below compare Karnataka's expenditure in 2023-24 on six key sectors as a proportion of its total expenditure on all sectors. The average for a sector indicates the average expenditure in that sector by 31 states (including Karnataka) as per their budget estimates of 2022-23.¹

- **Education:** Karnataka has allocated 11% of its expenditure on education in 2023-24. This is lower than the average allocation for education by states in 2022-23 (14.8%).
- **Health:** Karnataka has allocated 4.9% of its total expenditure towards health, which is less than the average allocation for health by states (6.3%).
- **Agriculture:** Karnataka has allocated 7.3% of its expenditure on agriculture. This is higher than the average allocation for agriculture by states (5.8%).
- **Energy:** Karnataka has allocated 7.5% of its total expenditure towards energy, which is higher than the average allocation for energy by states (4.8%).
- **Irrigation:** Karnataka has allocated 6.3% of its total expenditure towards irrigation, which is higher than the average allocation for irrigation by states (3.5%).
- **Roads and bridges:** Karnataka has allocated 3.4% of its total expenditure towards roads and bridges, which is lower than the average allocation by states (4.5%).



Note: 2021-22, 2022-23 (BE), 2022-23 (RE), and 2023-24 (BE) figures are for Karnataka.

Sources: Annual Financial Statement, Karnataka Budget 2023-24; various state budgets; PRS.

Annexure 2: Comparison of 2021-22 Budget Estimates and Actuals

The following tables compare the actuals of 2021-22 with budget estimates for that year.

Table 7: Overview of Receipts and Expenditure (in Rs crore)

Particular	2021-22 BE	2021-22 Actuals	% change from BE to Actuals
Net Receipts (1+2)	1,72,402	1,95,895	14%
1. Revenue Receipts (a+b+c+d)	1,72,271	1,95,762	14%
a. Own Tax Revenue	1,11,494	1,20,739	8%
b. Own Non-Tax Revenue	8,258	11,777	43%
c. Share in central taxes	24,273	33,284	37%
d. Grants-in-aid from the Centre	28,246	29,962	6%
Of which GST compensation grants	12,708	8,976	-29%
2. Non-Debt Capital Receipts	131	133	1%
3. Borrowings	71,332	80,641	13%
Of which GST compensation loan	-	18,109	-
Net Expenditure (4+5+6)	2,31,642	2,61,512	13%
4. Revenue Expenditure	1,87,405	2,09,428	12%
5. Capital Outlay	41,358	47,874	16%
6. Loans and Advances	2,879	4,209	46%
7. Debt Repayment	14,565	13,972	-4%
Revenue Deficit	15,134	13,666	-10%
Revenue Deficit (as % of GSDP)	0.9%	0.8%	-
Fiscal Deficit	59,240	65,617	11%
Fiscal Deficit (as % of GSDP)	3.5%	3.8%	-

Note: BE: Budget Estimates.

Sources: Karnataka Budget Documents of various years; PRS.

Table 8: Key Components of State's Own Tax Revenue (in Rs crore)

Tax Head	2021-22 BE	2021-22 Actuals	% change from BE to Actuals
Land Revenue	271	181	-33%
Taxes on Vehicles	7,515	6,915	-8%
Taxes and Duties on Electricity	2,708	2,724	1%
State Excise	24,580	26,378	7%
State GST	45,947	49,929	9%
Stamps Duty and Registration Fees	12,655	14,020	11%
Sales Tax/ VAT	16,791	19,274	15%

Sources: Karnataka Budget Documents of various years; PRS.

Table 9: Allocation towards Key Sectors (in Rs crore)

Sector	2021-22 BE	2021-22 Actuals	% change from BE to Actuals
Rural Development	9,191	8,427	-8%
Police	7,235	6,801	-6%
Education, Sports, Arts, and Culture	29,100	30,774	6%
Irrigation and Flood Control	19,367	21,054	9%
Welfare of SC, ST, OBC, and Minorities	8,686	9,526	10%
Housing	3,086	3,528	14%
Transport	12,736	14,748	16%
<i>of which Roads and Bridges</i>	<i>11,070</i>	<i>12,120</i>	<i>9%</i>
Health and Family Welfare	12,235	15,345	25%
Social Welfare and Nutrition	13,651	17,790	30%
Urban Development	5,651	7,733	37%
Agriculture and Allied Activities	14,976	20,769	39%
Water Supply and Sanitation	4,868	6,790	39%
Energy	12,579	17,645	40%

Sources: Karnataka Budget Documents of various years; PRS.