

Karnataka Budget Analysis 2025-26

The Chief Minister of Karnataka, Mr. Siddaramaiah, presented the budget for the state for the financial year 2025-26 on March 7, 2025.

Budget Highlights

- The **Gross State Domestic Product (GSDP)** of Karnataka for 2025-26 (at current prices) is projected to be Rs 30,70,103 crore, amounting to growth of 7% over 2024-25.
- **Expenditure (excluding debt repayment)** in 2025-26 is estimated to be Rs 3,83,075 crore, an increase of 12% over the revised estimates of 2024-25. In addition, debt of Rs 26,474 crore will be repaid by the state.
- **Receipts (excluding borrowings)** for 2025-26 are estimated to be Rs 2,92,647 crore, an increase of 13% as compared to the revised estimate of 2024-25.
- **Revenue deficit** in 2025-26 is estimated to be 0.6% of GSDP (Rs 19,262 crore), as compared to a revenue deficit of 0.9% of GSDP (Rs 26,127 crore) at the revised estimate stage in 2024-25.
- **Fiscal deficit** for 2025-26 is targeted at 2.9% of GSDP (Rs 90,428 crore). In 2024-25, as per the revised estimates, fiscal deficit is expected to be 2.9% of GSDP, similar to the budgeted figure.

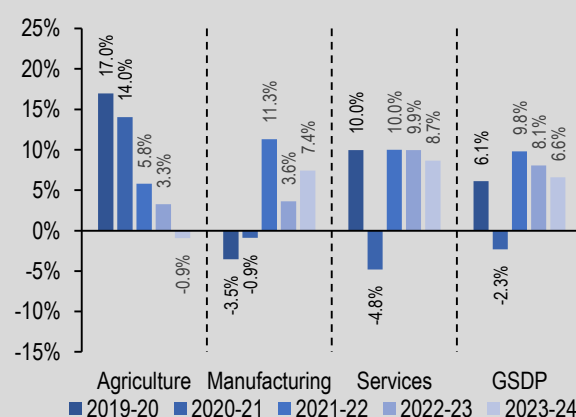
Policy Highlights

- **Infrastructure:** The Chief Minister’s Infrastructure Development Program has been announced with an allocation of Rs 8,000 crore. It will focus on minor irrigation, roads, and urban infrastructure across the state.
- **Assistance to government workers:** The honorarium for ASHA workers has been increased by Rs 1,000, and for guest teachers in government schools and colleges by Rs 2,000. Honorariums have also been increased for anganwadi workers and helpers, school cooks, Jain priests, Sikh grantis, Pesh-Imams, and Muezzins.
- **Agriculture:** An additional Rs 450 will be provided over the Rs 7,550 per quintal minimum support price for toor dal procurement, with a total allocation of Rs 138 crore.
- **Reservation in procurement:** Additional reservation in government procurement will be provided for contractors and suppliers belonging to Scheduled Castes, Scheduled Tribes, Category-I, Category-IIA, and Category IIB communities.
- **Ease of Doing Business:** The Karnataka Employer’s Compliance Decriminalisation Bill and the Karnataka Employer’s Compliance Digitisation Bill will be introduced, to simplify rules and compliance conditions for industrialists.

Karnataka’s Economy

- **GSDP:** In 2023-24, Karnataka’s GSDP (at constant prices) is estimated to grow by 7% over the previous year. In comparison, India’s GDP is estimated to grow by 9.2% in 2023-24.
- **Sectors:** In 2023-24, agriculture, manufacturing, and services sectors are estimated to contribute 14%, 20%, and 66% of Karnataka’s economy, respectively (at current prices).
- **Per capita GSDP:** In 2023-24, Karnataka’s per capita GSDP (at current prices) is estimated to be Rs 3,68,085, an increase of 9% over the figure for 2022-23. In 2023-24, India’s per capita GDP is estimated to be Rs 2,15,935.

Figure 1: Growth in Karnataka’s GSDP 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 2025-26

- **Total expenditure (excluding debt repayment)** in 2025-26 is targeted at Rs 3,83,075 crore. This is an increase of 12% from the revised estimate of 2024-25. This expenditure is proposed to be met through **receipts (excluding borrowings)** of Rs 2,92,647 crore and net borrowings of Rs 89,526 crore. Total receipts for 2025-26 (other than borrowings) are expected to register an increase of 13% over the revised estimate of 2024-25.
- The state estimates a **revenue deficit** of 0.6% of GSDP (Rs 19,262 crore) in 2025-26, as compared to a revenue deficit of 0.9% of GSDP at the revised estimate stage of 2024-25.
- **Fiscal deficit** for 2025-26 is targeted at 2.9% of GSDP (Rs 90,428 crore), 9% higher than the revised estimates for 2024-25 (Rs 82,940 crore). As a percentage of GSDP, fiscal deficit was 2.9% as per the revised estimates for 2024-25, and 2.6% for 2023-24.

Table 1: Budget 2025-26 - Key figures (in Rs crore)

Items	2023-24 Actuals	2024-25 Budgeted	2024-25 Revised	% change from BE 24-25 to RE 24-25	2025-26 Budgeted	% change from RE 24-25 to BE 25-26
Total Expenditure	3,21,660	3,71,383	3,65,865	-1%	4,09,549	12%
(-) Repayment of debt	22,453	24,974	24,974	0%	26,474	6%
Net Expenditure (E)	2,99,207	3,46,409	3,40,891	-2%	3,83,075	12%
Total Receipts	3,23,965	3,68,674	3,58,657	-3%	4,08,647	14%
(-) Borrowings	90,280	1,05,246	1,00,706	-4%	1,16,000	15%
of which central capex loans*	3,879	4,500	4,500	0%	4,500	0%
Net Receipts (R)	2,33,685	2,63,428	2,57,951	-2%	2,92,647	13%
Fiscal Deficit (E-R)	65,522	82,981	82,940	-0.05%	90,428	9%
as % of GSDP	2.6%	2.9%	2.9%		2.9%	
Revenue Deficit	9,272	27,354	26,127	-4%	19,262	-26%
as % of GSDP	0.4%	1.0%	0.9%		0.6%	
Primary Deficit	34,696	43,747	46,307	6%	44,828	-3%
as % of GSDP	1.4%	1.5%	1.6%		1.5%	
GSDP	25,67,340	28,61,929	28,61,929	0%	30,70,103	7%

Note: BE is Budget Estimates; RE is Revised Estimates. *Central government has been providing 50-year interest-free loans to state governments for capital expenditure since 2020-21. These loans are excluded from the calculation of the state's borrowing ceiling.

Sources: Annual Financial Statement, Karnataka Budget Documents 2025-26; PRS.

Expenditure in 2025-26

- **Revenue expenditure** for 2025-26 is proposed to be Rs 3,11,739 crore, an increase of 10% over the revised estimate of 2024-25. This includes the expenditure on salaries, pension, interest, grants, and subsidies.
- **Capital outlay** for 2025-26 is proposed to be Rs 68,172 crore, an increase of 25% over the revised estimate of 2024-25. Capital outlay indicates the expenditure towards asset creation.
- In 2025-26, loans and advances by the state are expected to be Rs 3,164 crore, 24% higher as compared to the revised estimate of 2024-25. In 2024-25, loans extended by the state are expected to be 14% less than budget estimates.

Table 2: Expenditure budget 2025-26 (in Rs crore)

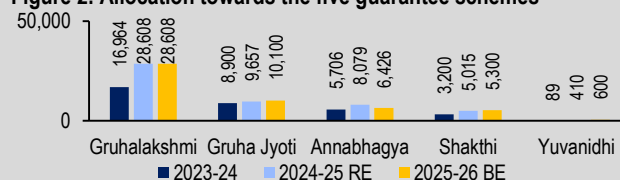
Items	2023-24 Actuals	2024-25 Budgeted	2024-25 Revised	% change from BE 24-25 to RE 24-25	2025-26 Budgeted	% change from RE 24-25 to BE 25-26
Revenue Expenditure	2,42,614	2,90,531	2,83,928	-2%	3,11,739	10%
Capital Outlay	52,120	52,903	54,412	3%	68,172	25%
Loans given by the state	4,473	2,974	2,551	-14%	3,164	24%
Net Expenditure	2,99,207	3,46,409	3,40,891	-2%	3,83,075	12%

Sources: Annual Financial Statement, Karnataka Budget Documents 2025-26; PRS.

Expenditure on Five Guarantees

In 2025-26, Rs 51,034 crore has been allocated towards the five guarantee schemes, 1% less than the revised estimates of 2024-25. Spending on these schemes is estimated to be 17% of revenue receipts in 2025-26, lower than the revised estimates for 2024-25 (20% of revenue receipts). Karnataka observed a revenue surplus of 0.1% of GSDP in 2022-23. From 2023-24, when these guarantee schemes were launched, the state has observed a revenue deficit.

Figure 2: Allocation towards the five guarantee schemes



Sources: Overview of Budget, Karnataka Budget documents 2025-26; PRS.

Committed expenditure: Committed expenditure of a state typically includes expenditure on payment of salaries, pension, and interest. A larger proportion of the budget allocated for committed expenditure items limits the state's flexibility to decide on other expenditure priorities, such as capital outlay. In 2025-26, Karnataka is estimated to spend Rs 1,69,115 crore on committed expenditure, which is 58% of its estimated revenue receipts. This comprises spending on salaries (29% of revenue receipts), pension (13%), and interest payments (16%). In 2023-24, as per actual figures, 50% of revenue receipts were spent on committed expenditure.

Table 3: Committed Expenditure in 2025-26 (in Rs crore)

Committed Expenditure	2023-24 Actuals	2024-25 Budgeted	2024-25 Revised	% change from BE 24-25 to RE 24-25	2025-26 Budgeted	% change from RE 24-25 to BE 25-26
Salaries	61,498	80,434	71,862	-11%	85,860	19%
Pension	24,859	32,355	30,045	-7%	37,655	25%
Interest payment	30,826	39,234	36,634	-7%	45,600	24%
Total	1,17,184	1,52,023	1,38,541	-9%	1,69,115	22%

Sources: Annual Financial Statement, Karnataka Budget Documents 2025-26; PRS.

Sector-wise expenditure: The sectors listed below account for **62%** of the total expenditure on sectors by the state in 2025-26. 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 2025-26 (in Rs crore)

Sectors	2023-24 Actuals	2024-25 BE	2024-25 RE	2025-26 BE	% change from RE 24-25 to BE 25-26	Demand Provisions
Social Welfare and Nutrition	33,982	45,281	48,922	46,397	-5%	Rs 28,608 crore has been allocated towards the Gruha Lakshmi scheme.
Education, Sports, Arts, and Culture	33,926	40,945	36,991	40,954	11%	Rs 3,715 crore has been allocated towards Samagra Sikshana Karnataka.
Energy	24,295	23,100	23,077	26,853	16%	Rs 16,021 crore has been allocated for subsidies to supply free power to irrigation pump sets. The Gruha Jyothi scheme has been allocated Rs 10,100 crore.
Agriculture and Allied Activities	19,141	23,357	23,232	22,871	-2%	Rs 8,057 crore has been allocated to the Annabhagya scheme. Rs 3,792 has been allocated towards crop husbandry.
Irrigation and Flood Control	19,291	19,194	18,708	22,186	19%	Rs 17,572 crore has been allocated for capital outlay on medium irrigation of which Rs 5,558 crore is budgeted for repayment of borrowings by PSUs.
Health and Family Welfare	13,352	16,356	15,248	18,690	23%	Rs 1,235 crore has been allocated for Ayushman Bharath scheme.
Welfare of SC, ST, OBC, and Minorities	11,615	13,334	14,068	16,631	18%	Rs 6,022 crore has been allocated towards the welfare of scheduled castes, and Rs 4,014 crore for the welfare of backward classes.
Transport	16,007	15,509	16,092	15,281	-5%	Rs 5,300 crore has been allocated towards the Shakthi Scheme, which provides free bus travel to women. This accounts for 64% of revenue expenditure on transport.
Water Supply and Sanitation	6,477	9,370	9,265	13,399	45%	Rs 10,450 crore has been allocated towards the Jal Jeevan Mission.
Police	9,048	11,572	10,886	11,461	5%	Rs 8,219 crore has been allocated for police establishments in existing districts.
% of total expenditure on all sectors	63%	63%	64%	62%		

Sources: Annual Financial Statement, Karnataka Budget Documents 2025-26; PRS.

Receipts in 2025-26

- **Total revenue receipts** for 2025-26 are estimated to be Rs 2,92,647 crore, an increase of 13% over the revised estimate of 2024-25. Of this, Rs 2,24,600 crore (77%) will be raised by the state through its **own resources**, and Rs 67,877 crore (23%) will come **from the centre**. Resources from the centre will be in the form of state's share in central taxes (18% of revenue receipts) and grants (5% of revenue receipts).
- **Devolution:** In 2025-26, the state's share in central taxes is estimated at Rs 51,877 crore, an increase of 11% over the revised estimate of 2024-25.
- **Grants from the centre** in 2025-26 are estimated at Rs 16,000 crore, the same as the revised estimates for 2024-25. As per actual figures, Rs 15,528 crore was received as grants from the centre in 2023-24, including Rs 1,191 crore as GST compensation grants.
- **State's own tax revenue:** Karnataka's total own tax revenue is estimated to be Rs 2,08,100 crore in 2025-26, an increase of 15% over the revised estimate of 2024-25. Own tax revenue as a percentage of GSDP is estimated at 6.8% in 2025-26, higher than the revised estimates for 2024-25 (6.3%). As per actual figures for 2023-24, own tax revenue as a percentage of GSDP was 6.4%.

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

Items	2023-24 Actuals	2024-25 Budgeted	2024-25 Revised	% change from BE 2024-25 to RE 2024-25	2025-26 Budgeted	% change from RE 2024-25 to BE 2025-26
State's Own Tax	1,63,505	1,89,893	1,80,368	-5%	2,08,100	15%
State's Own Non-Tax	13,117	13,500	14,500	7%	16,500	14%
Share in Central Taxes	41,193	44,485	46,933	6%	51,877	11%
Grants-in-aid from Centre	15,528	15,300	16,000	5%	16,000	0%
Revenue Receipts	2,33,343	2,63,178	2,57,801	-2%	2,92,477	13%
Non-debt Capital Receipts	342	250	150	-40%	170	13%
Net Receipts	2,33,685	2,63,428	2,57,951	-2%	2,92,647	13%

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

Sources: Annual Financial Statement, Karnataka Budget Documents 2025-26; PRS.

- In 2025-26, **State GST** is estimated to be the largest source of own-tax revenue (44% share). State GST revenue is estimated to increase by 15% over the revised estimates of 2024-25.
- Revenue from state excise in 2025-26 is estimated to be the second highest source of own-tax revenue. It is expected to be 10% higher in 2025-26 than the revised estimate stage of 2024-25.

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

Head	2023-24 Actuals	2024-25 Budgeted	2024-25 Revised	% change from BE 2024-25 to RE 2024-25	2025-26 Budgeted	% change from RE 2024-25 to BE 2025-26
State GST	71,041	86,475	80,116	-7%	92,132	15%
State Excise	34,629	38,525	36,500	-5%	40,000	10%
Stamps Duty and Registration Fees	20,147	26,000	24,000	-8%	28,000	17%
Sales Tax/ VAT	20,811	22,125	23,538	6%	26,410	12%
Taxes on Vehicles	11,287	13,000	12,500	-4%	15,000	20%
Taxes and Duties on Electricity	3,323	2,006	2,006	0%	1,487	-26%
Land Revenue	860	362	362	0%	613	69%
GST Compensation Grants	1,191	-	-	-	-	-

Sources: Annual Financial Statement, Revenue Budget, Karnataka Budget Documents 2025-26; PRS.

Deficits, Debt, and FRBM Targets for 2025-26

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

Revenue balance: 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 budget estimates a revenue deficit of Rs 19,262 crore (or 0.6% of the GSDP) in 2025-26.

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 2025-26, the fiscal deficit is estimated to be 2.9% of GSDP. For 2025-26, the central government has permitted fiscal deficit of up to 3% of GSDP to states. Additional borrowing space up to 0.5% of GSDP will also be available for undertaking certain power sector reforms.

The revised estimate for fiscal deficit in 2024-25 is 2.9% of GSDP, the same as the budget estimate. However, in absolute terms, fiscal deficit is estimated to decrease from Rs 82,981 crore as per the budget estimate to Rs 82,940 crore as per the revised estimate.

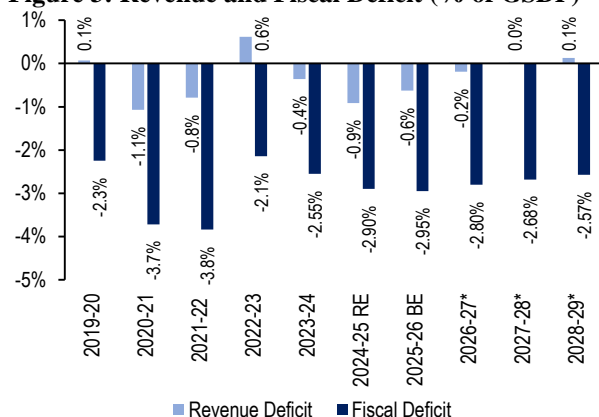
Total liabilities: Total liabilities is the accumulation of total borrowings at the end of a financial year. At the end of 2025-26, the total liabilities are estimated to be 25% of GSDP, higher than the revised estimates for 2024-25 (24% of GSDP).

Rising debt burden and increasing interest repayments

As of March 2023, 40% of Karnataka's outstanding public debt will mature between 2024-2029, and the remaining from 2030 onwards. While additional debt is required to meet expenditure, it burdens the state with future repayment. This also increases interest payments, which form part of the state's committed expenditure. The proportion of interest payments to revenue receipts has increased from 9% in 2018-19 to 12% in 2022-23. It is estimated to be 16% of revenue receipts in 2025-26. The CAG (2023) reported that from 2025-26 to 2028-29, interest repayment would exceed 50% of the principal amount.

Sources: CAG State Financial Audit Report, 2023; PRS.

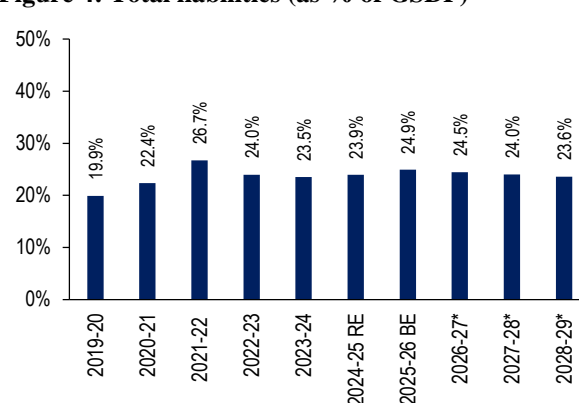
Figure 3: Revenue and Fiscal Deficit (% of GSDP)



Note: *Figures from 2026-27 onwards are projections. RE is Revised Estimates; BE is budget estimates. Negative figures indicate a deficit. Fiscal deficit for 2020-21 and 2021-22 include GST compensation loans.

Sources: Overview of Budget (for data from 2019-20 to 2025-26), Medium Term Fiscal Policy (for projections), Karnataka Budget Documents 2025-26; PRS.

Figure 4: Total liabilities (as % of GSDP)



Note: *Figures from 2026-27 onwards are projections. BE is budget estimates.

Sources: Medium Term Fiscal Policy, Karnataka Budget Documents 2025-26; PRS.

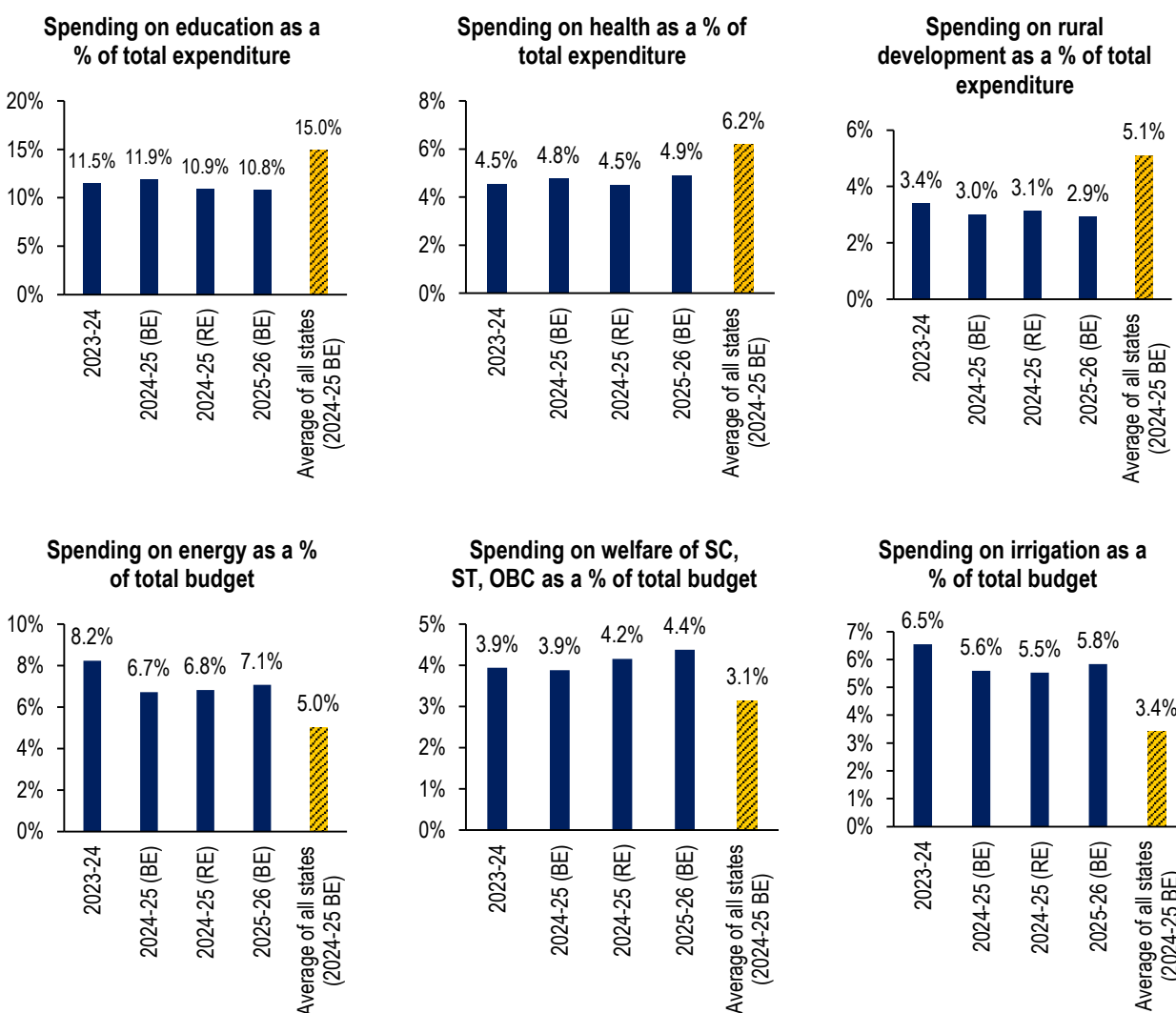
Outstanding Government Guarantees: Outstanding debt of states do not include a few other liabilities that are contingent in nature, which states may have to honour in certain cases. State governments guarantee the borrowings of State Public Sector Enterprises (SPSEs) from financial institutions. As of March 31, 2024, the state's outstanding guarantee is estimated to be Rs 44,247 crore, which is 2% of Karnataka's GSDP.

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Annexure 1: Comparison of states' expenditure on key sectors

The graphs below compare Karnataka's expenditure in 2025-26 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 2024-25.¹

- **Education:** Karnataka has allocated 10.8% of its expenditure on education in 2025-26. This is lower than the average allocation for education by states in 2024-25 (15%).
- **Health:** Karnataka has allocated 4.9% of its expenditure on health in 2025-26. This is lower than the average allocation on health by states in 2024-25 (6.2%).
- **Rural development:** Karnataka has allocated 2.9% of its expenditure on rural development in 2025-26. This is lower than the average allocation for rural development by states in 2024-25 (5.1%).
- **Energy:** Karnataka has allocated 7.1% of its expenditure on energy in 2025-26. This is higher than the average allocation for energy by states in 2024-25 (5.0%).
- **Welfare of SC, ST, and OBC:** Karnataka has allocated 4.4% of its expenditure on welfare of SC, ST, and OBC in 2025-26. This is higher than the average allocation for this sector by states in 2024-25 (3.1%).
- **Irrigation:** Karnataka has allocated 5.8% of its expenditure on irrigation in 2025-26. This is higher than the average allocation for irrigation by states in 2024-25 (3.4%).



Note: 2023-24, 2024-25 (BE), 2024-25 (RE), and 2025-26 (BE) figures are for Karnataka.

Sources: Annual Financial Statement, Karnataka Budget Documents 2025-26; various state budgets; PRS.

¹ The 31 states include the Union Territories of Delhi, Jammu and Kashmir, and Puducherry.

Annexure 2: Comparison of 2023-24 Budget Estimates and Actuals

The following tables compare the actuals of 2023-24 with budget estimates for that year.

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

Particular	2023-24 BE	2023-24 Actuals	% change from BE to Actuals
Net Receipts (1+2)	2,38,660	2,33,685	-2%
1. Revenue Receipts (a+b+c+d)	2,38,410	2,33,343	-2%
a. Own Tax Revenue	1,73,303	1,63,505	-6%
b. Own Non-Tax Revenue	12,500	13,117	5%
c. Share in central taxes	37,252	41,193	11%
d. Grants-in-aid from the Centre	15,355	15,528	1%
2. Non-Debt Capital Receipts	250	342	37%
3. Borrowings	85,818	90,280	5%
Of which central capex loans	4,500	3,879	-14%
Net Expenditure (4+5+6)	3,05,306	2,99,207	-2%
4. Revenue Expenditure	25,09,323	2,42,614	-3%
5. Capital Outlay	50,989	52,120	2%
6. Loans and Advances	3,385	4,473	32%
7. Debt Repayment	22,441	22,453	0.1%
Revenue Deficit	12,523	9,272	-26%
Revenue Deficit (as % of GSDP)	0.49%	0.4%	
Fiscal Deficit	66,646	65,522	-2%
Fiscal Deficit (as % of GSDP)	2.60%	2.6%	

Source: Karnataka Budget Documents of various years; PRS.

Table 8: Key Components of State's Own Tax Revenue

Tax Source/Head	2023-24 BE	2023-24 Actuals	% change from BE to Actuals
Stamps Duty and Registration Fees	25,000	20,147	-19%
State GST	76,150	71,041	-7%
State Excise	36,000	34,629	-4%
Taxes on Vehicles	11,500	11,287	-2%
Sales Tax/ VAT	21,100	20,811	-1%
Taxes and Duties on Electricity	2,049	3,323	62%
Land Revenue	104	860	728%

Source: Karnataka Budget Documents of various years; PRS.

Table 9: Allocation towards Key Sectors

Sector	2023-24 BE	2023-24 Actuals	% change from BE to Actuals
Housing	3,484	2,692	-23%
Agriculture and Allied Activities	22,158	19,141	-14%
Police	10,011	9,048	-10%
Health and Family Welfare	14,761	13,352	-10%
Water Supply and Sanitation	6,946	6,477	-7%
Social Welfare and Nutrition	34,834	33,982	-2%
Irrigation and Flood Control	19,057	19,291	1%
Education, Sports, Arts, and Culture	33,271	33,926	2%
Rural Development	9,494	9,983	5%
Welfare of SC, ST, OBC, and Minorities	10,972	11,615	6%
Transport	15,023	16,007	7%
of which Roads and Bridges	10,278	10,990	7%
Energy	22,662	24,295	7%
Urban Development	1,712	2,171	27%

Source: Karnataka Budget Documents of various years; PRS.