

# Karnataka Budget Analysis 2017-18

The Chief Minister and Finance Minister, Mr. Siddaramaiah presented the Budget for Karnataka for financial year 2017-18 on March 14, 2017.

## Budget Highlights

- The **Gross State Domestic Product (GSDP)** of Karnataka for 2017-18 at current prices is estimated to be Rs 12,80,465 crore, which is 15% higher than the revised estimates for 2016-17
- **Total expenditure** for 2017-18 is estimated to be Rs 1,86,561 crore, 13.4% higher than the revised estimates of 2016-17. In 2016-17, there was an increase of Rs 1,060 crore (0.6%) in the government's expenditure during the year, over its budget estimate.
- **Total receipts (excluding borrowings)** for 2017-18 are estimated to be Rs 1,45,027 crore, an increase of 9% over the revised estimates of 2016-17. In 2016-17, total receipts were higher than the budget target by Rs 2,148 crore.
- **Revenue surplus** for 2017-18 is targeted at Rs 137 crore, or 0.01% of GSDP. **Fiscal deficit** is targeted at Rs 33,359 crore (2.61% of GSDP). Primary deficit is estimated to be Rs 19,200 crore, which is 1.50% of GSDP.

## Policy Highlights

- **Namma Canteen:** Namma canteens will be opened in each of the 198 wards of Bengaluru Mahanagar Palike. The canteens will serve breakfast for Rs 5, and lunch and dinner for Rs 10. Rs 100 crore has been allocated for the scheme.
- **Housing:** Seven lakh houses are proposed to be constructed. Of this, six lakh will be constructed in rural areas, and one lakh in Bengaluru.
- **Tax exemptions:** The following items are proposed to be exempted from Value Added Tax (VAT): Navane, Same, Aaraka, Baragu, coconut husk, and pulses.
- **Excise Duty on liquor:** Additional Excise Duty on two of the 17 slabs of excise duty (which is levied on liquor) is proposed to be increased by 6%. On the other 15 slabs, it is proposed to be increased by 10% and 16%. Further, VAT will be removed from sale of liquor including beer, fenny and wine.
- **Increase in taxes on two-wheelers:** The tax on registration of two-wheelers is proposed to be increased from the current rate of 12% to 18%.
- The highest allocation of Rs 20,008 crore has been made for education, which is 5.7% lower than the budget estimates of 2016-17. This is followed by Rs 14,433 crore being allocated for water resources, which is 36% higher than 2016-17. Rs 13,732 crore has been allocated for urban development.

## Karnataka's Economy

### Economy

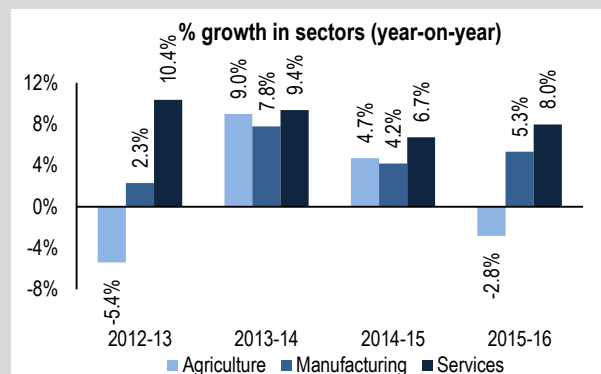
Between 2011-12 and 2015-16, Karnataka's GSDP grew at an annual rate of 7.1% (at constant prices). Over this period, the per capita income of increased by an average rate of 6% from Rs 98,204 to Rs 1,23,877.

In 2015-16, Karnataka's GSDP grew by 6.4%, at constant prices. The services sector, which contributed to 63% to the GSDP grew at 8%. The manufacturing sector, contributing 24% of the GSDP grew at 5.3%, while agriculture sector contracted by 2.8% (at constant prices) as compared to 2014-15.

### Participation of workers

Worker Population Ratio is the proportion of workers to the total population aged 15 years and above. The ratio for Karnataka (2015-16) was 55.5%, lower than 56.8% in 2013-14. Note that in 2015-16, the national average stood at 50.5%.

Sources: Lok Sabha Unstarred Question No. 682, Answered on February 6, 2017; PRS.



Note: 2015-16 data is as of July 2016.  
Source: Central Statistics Office; PRS.

## Budget Estimates for 2017-18

- The total expenditure in 2017-18 is targeted at Rs 1,86,561 crore. The revised estimate for the expenditure in 2016-17 is Rs 1,64,479 crore, which is 0.6% (Rs 1,060 crore) more than the budgeted target of 2016-17.
- The expenditure in 2017-18 is proposed to be met through receipts (other than borrowings) of Rs 1,45,027 crore and borrowings of Rs 37,092 crore. Total receipts for 2017-18 (other than borrowings) are expected to be 9% higher than the revised estimates of 2016-17.

**Table 1: Budget 2017-18 - Key figures (in Rs crore)**

Items	2015-16 Actuals	2016-17 Budgeted	2016-17 Revised	% change from BE 2016-17 to RE of 2016-17	2017-18 Budgeted	% change from RE 2016-17 to BE 2017-18
<b>Total Expenditure</b>	<b>1,42,508</b>	<b>1,63,419</b>	<b>1,64,479</b>	<b>0.6%</b>	<b>1,86,561</b>	<b>13.4%</b>
A. Borrowings (Public Debt)	21,072	31,036	31,036	0.0%	37,092	19.5%
B. Receipts (except borrowings)	1,19,229	1,30,920	1,33,068	1.6%	1,45,027	9.0%
<b>Total Receipts (A+B)</b>	<b>1,40,302</b>	<b>1,61,956</b>	<b>1,64,104</b>	<b>1.3%</b>	<b>1,82,119</b>	<b>11.0%</b>
<b>Revenue Deficit</b> (-)/Surplus(+)	<b>1,789</b>	<b>522</b>	<b>1,063</b>		<b>137</b>	
As % of state GDP	0.24%	0.05%	0.10%		0.01%	
<b>Fiscal Deficit</b> (-)/Surplus(+)	<b>-19,169</b>	<b>-25,657</b>	<b>-24,154</b>		<b>-33,359</b>	
As % of state GDP	-2.60%	-2.30%	-2.16%		-2.61%	
<b>Primary Deficit</b> (-)/Surplus(+)	<b>-8,422</b>	<b>-12,986</b>	<b>-11,863</b>		<b>-19,200</b>	
As % of state GDP	-1.14%	1.16%	-1.06%		-1.50%	

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 2017-18.

Sources: Karnataka State Budget Documents 2017-18; PRS.

## Expenditure in 2017-18

- Government expenditure can be divided into (a) capital expenditure, which affects the assets and liabilities of the state, and (b) revenue expenditure, which includes the rest of the expenses.
 

The capital expenditure in 2017-18 is expected to be 27.9% higher than 2016-17. During 2016-17, capital expenditure was revised downwards by 1.5% (Rs 509 crore), over the budget estimates of 2016-17.
- Total capital expenditure of Karnataka is proposed to be Rs 41,806 crore, which is an increase of 27.9% over the revised estimates of 2016-17. This includes expenditure which leads to creation of assets, and repayment of loans, among others.
- Total revenue expenditure for 2017-18 is proposed to be Rs 1,44,755 crore, which is an increase of 9.8% over revised estimates of 2016-17. This expenditure includes payment of salaries, administration of government programs, etc.

**Table 2: Expenditure Budget 2017-18 (in Rs crore)**

Item	2015-16 Actuals	2016-17 Budgeted	2016-17 Revised	% change from BE 2016-17 to RE 2016-17	2017-18 Budgeted	% change from RE 2016-17 to BE 2017-18
Capital Expenditure	25,480	33,183	32,674	-1.5%	41,806	27.9%
Revenue Expenditure	1,17,029	1,30,236	1,31,805	1.2%	1,44,755	9.8%
<b>Total Expenditure</b>	<b>1,42,509</b>	<b>1,63,419</b>	<b>1,64,479</b>	<b>0.6%</b>	<b>1,86,561</b>	<b>13.4%</b>
A. Debt Repayment	5,180	7,377	7,791	5.6%	8,526	9.4%
B. Interest Payments	10,746	12,671	12,291	-3.0%	14,159	15.2%
<b>Debt Servicing (A+B)</b>	<b>15,927</b>	<b>20,048</b>	<b>20,083</b>	<b>0.2%</b>	<b>22,685</b>	<b>13.0%</b>

Note: 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 State Budget Documents 2017-18; PRS.

## Department expenditure in 2017-18

The departments listed below account for around 45% of the total expenditure of Karnataka in 2017-18.

**Table 3: Department-wise expenditure for Karnataka Budget 2017-18 (in Rs crore)**

Department	2015-16 Actuals	2016-17 Budgeted	2016-17 Revised	% change from BE 2016-17 to RE 2016-17	2017-18 Budgeted	% change from RE 2016-17 to BE 2017-18	Budget provisions for 2017-18
Education	19,228	20,318	21,210	4.4%	20,008	-5.7%	<ul style="list-style-type: none"> <li>A Karnataka School Education Policy will be formulated.</li> <li>Raichur University will be established, and colleges of Raichur and Yadgir districts will be brought under it.</li> </ul>
Water Resources	8,160	11,389	10,632	-6.6%	14,433	35.8%	<ul style="list-style-type: none"> <li>Rs 3,000 is estimated to be spent on 21 different projects. This includes development of canal in the Cauvery basin at a cost of Rs 510 crore.</li> </ul>
Urban Development	8,261	11,029	10,562	-4.2%	13,732	30.0%	<ul style="list-style-type: none"> <li>Bengaluru Metro work for line between Silk Board to K. R. Puram will be commences at a cost of Rs 4,200 crore.</li> </ul>
Rural Development	10,435	12,761	12,744	-0.1%	13,618	6.9%	<ul style="list-style-type: none"> <li>Rs 2,200 crore has been allocated for the Rural Water Supply scheme.</li> <li>Rs 1,585 crore will be provided for ensuring rural sanitation and creating an open-defecation free state.</li> </ul>
Social Welfare	7,582	9,110	9,258	1.6%	11,481	24.0%	<ul style="list-style-type: none"> <li>Rs 300 crore has been allocated to distribute buffalo-cow or sheep goat to 1 lakh SC/ST.</li> <li>Rs 100 crore has been allocated for LPG connections to SC/ST families living below poverty line.</li> </ul>
Energy	9,252	7,932	7,941	0.1%	10,272	29.4%	<ul style="list-style-type: none"> <li>3,975 MW of capacity will be added. This will include 1,600 MW from Yamaras project, and 1,000 MW from solar energy park of Pavagada.</li> </ul>
<b>% of total expenditure</b>	<b>44%</b>	<b>44%</b>	<b>44%</b>		<b>45%</b>		
<b>Other Departments</b>	<b>79,591</b>	<b>90,879</b>	<b>92,131</b>		<b>1,03,016</b>		
<b>Total Expenditure</b>	<b>1,42,508</b>	<b>1,63,419</b>	<b>1,64,479</b>		<b>1,86,561</b>		

Sources: Karnataka State Budget Documents 2017-18; PRS.

### Other announcements:

- Agriculture:** Rs 6,505 crore has been allocated for Agriculture and Horticulture, which is 15% higher than the revised estimates of 2016-17. Rs 845 crore has been allocated for the Raitha Suraksha Pradhan Mantri Fasal Bima Yojna.
- Health and Family Welfare:** Rs 6,728 crore has been allocated for Health and Family Welfare, which is 3.7% higher than the revised estimates of 2016-17. 200 medical stores will be started under the Jana Aushadi Generic Medical Stores scheme to provide generic medicines at lower prices.
- Subsidies:** Karnataka is expected to spend Rs 24,232 crore on subsidies in 2017-18. Of this, the highest allocation of Rs 8,841 crore is for power, followed by Rs 3,654 crore for housing.

**Table 4: Expenditure on subsidies in 2017-18 (in Rs Crore)**

Subsidy	2015-16 Actuals	2016-17 Budgeted	2016-17 Revised	% change from BE 2016-17 to RE 2016-17	2017-18 Budgeted	% change from RE 2016-17 to BE 2017-18
Power	8,143	7,199	7,199	0.0%	8,841	22.8%
Housing	2,808	2,485	2,560	3.0%	3,654	42.7%
Food	2,196	1,994	1,976	-0.9%	3,478	76.0%
Agriculture	946	1,801	1,807	0.3%	2,368	31.0%
Others	5,071	5,014	5,075	1.2%	5,892	16.1%
<b>Total</b>	<b>19,164</b>	<b>18,492</b>	<b>18,616</b>	<b>0.7%</b>	<b>24,232</b>	<b>30.2%</b>

Sources: Overview of Budget, Karnataka State Budget Documents 2016-17 and 2017-18; PRS.

## Receipts in 2017-18

- The total revenue receipts for 2017-18 are estimated to be Rs 1,44,891 crore, an increase of 9% over the revised estimates of 2016-17.
- State's tax revenue is expected to increase by 9.4% (Rs 7,746 crore) in 2017-18 over the revised estimates of 2016-17. The tax to GSDP ratio is targeted at 7.0% in 2017-18, which is lower than the revised estimate of 7.4% in 2016-17. This implies that growth in collection of taxes is expected to be lower than the estimated economic growth.
- Non-tax revenue in 2017-18 is estimated to decrease by 2.2% (Rs 154 crore) over the revised estimates of 2016-17.
- Grants from the centre are expected to increase by 8.7%, from Rs 14,798 crore in 2016-17 (RE), to Rs 16,082 crore in 2017-18. The other component of transfers from the centre is the state's share in central taxes, which is estimated to increase by 10.9%, to Rs 31,908 crore in 2017-18.

During 2016-17, the collection of taxes was 2% lower than the budget estimates. The highest fall of 15% was witnessed in the collection of stamp duty.

The tax collections through Entry Tax on Goods and Passengers are expected to be 64% lower (Rs 2,146 crore) than the revised estimates of 2016-17.

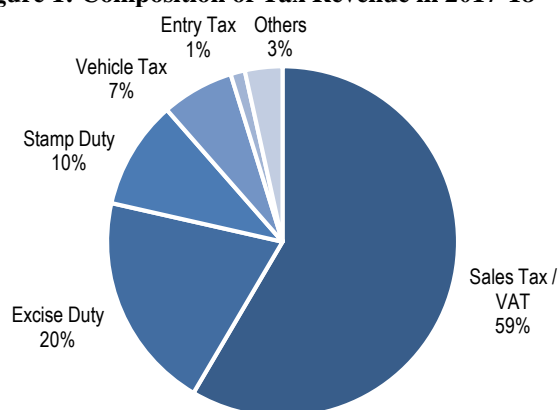
**Table 5: Break up of state government receipts (in Rs crore)**

Item	2015-2016 Actuals	2016-2017 Budgeted	2016-2017 Revised	% change from BE 2016-17 to RE 2016-17	2017-2018 Budgeted	% change from RE 2016-17 to BE 2017-18
State's Own Tax	75,550	83,864	82,211	-2.0%	89,957	9.4%
State's Own Non Tax	5,355	6,220	7,099	14.1%	6,945	-2.2%
State's share in Central Taxes	23,983	26,979	28,760	6.6%	31,908	10.9%
Grants-in-aid from Centre	13,929	13,694	14,798	8.1%	16,082	8.7%
<b>Total Revenue Receipts</b>	<b>1,18,817</b>	<b>1,30,758</b>	<b>1,32,867</b>	<b>1.6%</b>	<b>1,44,891</b>	<b>9.0%</b>
Borrowings	21,072	31,036	31,036	0.0%	37,092	19.5%
Recovery of loans and other receipts	412	162	201	24.1%	135	-32.7%
<b>Total Capital Receipts</b>	<b>21,485</b>	<b>31,198</b>	<b>31,237</b>	<b>0.1%</b>	<b>37,228</b>	<b>19.2%</b>
<b>Total Receipts</b>	<b>1,40,302</b>	<b>1,61,956</b>	<b>1,64,104</b>	<b>1.3%</b>	<b>1,82,119</b>	<b>11.0%</b>

Sources: Karnataka State Budget Documents 2017-18; PRS.

Total tax revenue of Karnataka is estimated to be Rs 89,957 crore in 2017-18. The composition of the state's tax revenue is shown in Figure 1.

**Figure 1: Composition of Tax Revenue in 2017-18**



Sources: Karnataka State Budget Documents 2017-18; PRS.

- **Tax Revenue:** Sales Tax is expected to be the largest component (59%) of the tax revenue, with an estimated collection of Rs 52,600 crore.
- Sales Tax collections are expected to increase by 15% over the revised estimates of 2016-17. Note that GST is expected to be introduced in 2017-18. It will subsume taxes such as Sales Tax and Entertainment Tax (unless levied by local bodies). Whether the roll-out of GST will increase tax collections will become clear in due course of time.
- Rs 18,050 crore is expected to be generated from the levy of Excise Duty. In addition, Rs 9,000 crore will be collected by levying stamp duty.
- **Non Tax Revenue:** Karnataka has estimated to generate Rs 6,945 crore through non-tax sources in 2017-18. This includes Rs 2,668 crore through mining and metallurgical industries (11% higher than 2016-17), and Rs 1,311 crore through interest receipts (8% higher than 2016-17).

## Deficits, Debts and FRBM Targets for 2017-18

The Karnataka Fiscal Responsibility 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. However, the budget estimates a revenue surplus of Rs 137 crore (or 0.01% of GSDP) in 2017-18. 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 meeting the target of eliminating revenue deficit, as 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 of the government. A high fiscal deficit may imply a higher repayment obligation for the state in the future. In 2017-18, fiscal deficit is estimated to be Rs 33,359 crore, which is 2.61% of the GSDP.

**Total Liabilities:** It is the accumulation of borrowings over the years. In 2017-18, the total liabilities are expected at 18.93% of GSDP. The Karnataka Fiscal Responsibility Act, 2002 requires the state to progressively reduce total liabilities to less than 25% of GSDP.

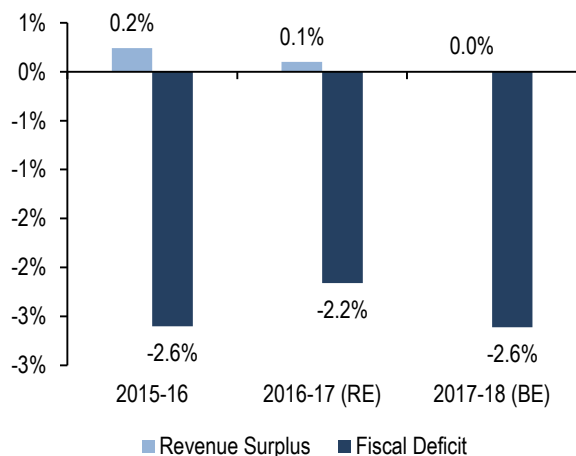
**Table 6: Budget targets for deficits for the state of Karnataka in 2017-18 (% of GSDP)**

Year	Revenue Deficit (-)/Surplus (+)	Fiscal Deficit (-)/Surplus (+)	Total Liabilities
2015-16	0.24%	-2.60%	24.91%
2016-17 (RE)	0.10%	-2.16%	18.91%
2017-18 (BE)	0.01%	-2.61%	18.93%
2018-19	0.10%	-2.50%	19.45%
2019-20	0.28%	-2.50%	19.99%
2020-21	0.35%	-2.50%	20.26%

Sources: Karnataka State Budget Documents 2017-18; PRS.

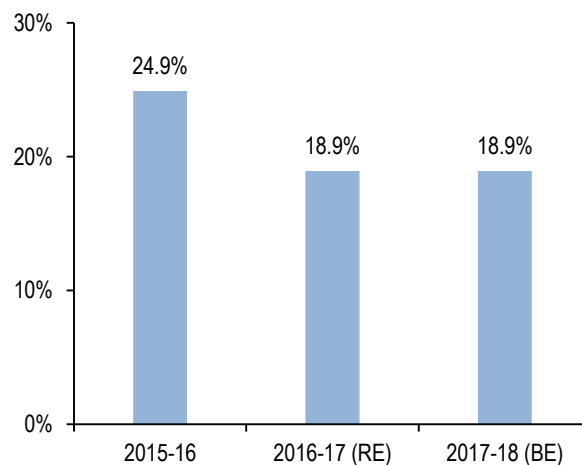
Figures 2 and 3 show the trend in deficits and total liabilities from 2015-16 to 2017-18:

**Figure 2: Revenue and Fiscal Deficit (as % of GSDP)**



Sources: Karnataka State Budget Documents; PRS.

**Figure 3: Total liabilities (as % of GSDP)**



Sources: Karnataka State Budget Documents; PRS.

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