

## THE ARITHMETIC OF KARNATAKA BUDGET: MANY STATES IN FY24 ARE SPENDING A SIZEABLE AMOUNT ON CAPITAL EXPENDITURE

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Karnataka Assembly presented State Budget 2023-24 on July 7, 2023. The total budget outlay of Rs 3.27 lakh crore is up from Rs 3.09 lakh crore of the interim budget presented by former Chief Minister in Feb'23, for the same fiscal year (FY24). Major highlight of the budget is the allocation towards 5 pre-poll guarantees (as promised). The 5-poll promises were: ₹ 2,000 monthly assistance to women heads of all families (Gruhalakshmi), 200 units of power to all households (Gruhajyoti), ₹ 3,000 every month for graduate youth and ₹ 1,500 for diploma holders (Yuvanidhi), 10 kg rice per person per month (Annabhagya) and free travel for women in the State public transport buses (Shakti).

In the Budget speech, the ruling dispensation has provided some details of funds planned to implement each of the guarantees, which add up to almost ₹ 60,000 crore annually - ₹ 8,000 crore more than the ₹ 52,000 crore figure quoted earlier. For the current fiscal (rest of the year) it is estimated that Rs 35000 to 40000 crore is required to fulfil the guarantees, a part of which was already accounted for in the FY23 budget. In effect, the subsidy has been increased by Rs 14,500 crore in FY24, compared to FY23 RE primarily due to enhanced subsidy for energy and food supplies. Significant reduction in subsidy visible in agriculture and co-operation.

Coming to funding of the scheme, capital expenditure has been budgeted lower at Rs 6500 crores. Additional Excise Duty on Indian Made Liquor by 20%, and on beer by 5.71%, proposal to revise guidance value of properties across Karnataka, tax on certain vehicle categories with revision, will give an additional Rs 13,650 crores. Apart from the proposed increase in taxes, Government also made Rs 8,000 crore additional borrowings to fund the 5-guarantees. The borrowing has increased by 28%, from RS 67,000 crore in FY23 to Rs 85,818 crore now. The FY24 borrowing levels are 39% more than the 5-year average. **Thus, a total of Rs 28,150 crores of additional resource mobilisation is proposed in budget, leaving a shortfall of Rs 12,000 crores. We believe, this could result in expenditure rationalisation for certain categories, or higher borrowing if revenue numbers do not fructify. However, SGST revenue of Karnataka has jumped by 50% in last 3 years!**

While the fiscal deficit is expected to be Rs 6,000 crore more than the interim numbers, as a % to GSDP it will be retained as 2.6%. This is due to the Rs 2.3 lakh higher nominal GSDP. The tax buoyancy (based on gross tax revenues) for FY24 is reasonably estimated at 1.0 as nominal GDP growth is projected by 17.7% while gross tax revenues are projected to grow by 18%. However, the FY24 tax buoyancy is less than the preceding two fiscals.

**Interestingly, in FY24 however, so far in Apr-May most of the states have spent a large part on capital expenditure. States like Andhra Pradesh, Rajasthan, Telangana, Haryana, Kerala and Madhya Pradesh have spent more than 10% of the budgeted (Andhra Pradesh at ~30%). This we believe is a welcome sign.**

### KARNATAKA BUDGET 2023-24 & POLL PROMISES

- ◆ Karnataka Assembly has presented 14th State Budget 2023-24 on July 7, 2023. The total budget outlay of Rs 3.27 lakh crore, up from Rs 3.09 lakh crore interim the budget presented by former chief minister in Feb'23, for the same fiscal year (FY24).
- ◆ Major highlight of the budget is the allocation towards 5-prepoll guarantees (as promised). The 5-poll promises were: ₹ 2,000 monthly assistance to women heads of all families (Gruhalakshmi), 200 units of power to all households (Gruhajyoti), ₹ 3,000 every month for graduate youth and ₹ 1,500 for diploma holders (Yuvanidhi), 10 kg rice per person per month (Annabhagya) and free travel for women in the State public transport buses (Shakti).

Budget at a Glance (Rs crore)								
Items	FY22	FY23BE	FY23RE	FY24(IBE)	FY24(BE)	Difference (FY24(IBE)-FY24BE)	FY24(BE)/FY23(RE) (Growth %)	FY23(RE)/FY22 (Growth %)
<b>Revenue receipts (1)</b>	<b>195762</b>	<b>189888</b>	<b>212360</b>	<b>225910</b>	<b>238410</b>	<b>12500</b>	<b>12.3</b>	<b>8.5</b>
State's Tax Revenue (Includes GST Compensation) (1.1)	129715	131883	154431	164653	175653	11000	13.7	19.1
Share in Central Taxes (1.3)	33284	29783	34596	37252	37252	0	7.7	3.9
Grants-In-Aid from Central Government (Excludes GST Compensation) (1.4)	20986	17281	12392	13005	13005	0	5.0	-41.0
<b>NON-TAX REVENUE (1.2)</b>	<b>11777</b>	<b>10941</b>	<b>10941</b>	<b>11000</b>	<b>12500</b>	<b>1500</b>	<b>14.2</b>	<b>-7.1</b>
of which, Other Non-Tax Revenue	10112	9883	9883	10511	12016	1505	21.6	-2.3
<b>Capital Receipts (2)</b>	<b>133</b>	<b>89</b>	<b>180</b>	<b>250</b>	<b>250</b>	<b>0</b>	<b>38.9</b>	<b>35.6</b>
Capital Receipts including public debt (2.a)	80774	72090	67180	78000	86068	8068	28.1	-16.8
<b>Total Receipts (3)</b>	<b>195895</b>	<b>189977</b>	<b>212540</b>	<b>226160</b>	<b>238660</b>	<b>12500</b>	<b>12.3</b>	<b>8.5</b>
Total Receipts including public debt (3.a)	276535	261977	279540	303910	324478	20568	16.1	1.1
<b>Revenue Expenditure (4)</b>	<b>209428</b>	<b>204587</b>	<b>218356</b>	<b>225507</b>	<b>250933</b>	<b>25425</b>	<b>14.9</b>	<b>4.3</b>
<b>Capital Expenditure (5)</b>	<b>52504</b>	<b>46955</b>	<b>55321</b>	<b>60882</b>	<b>54374</b>	<b>-6509</b>	<b>-1.7</b>	<b>5.4</b>
<b>Total expenditure (6)</b>	<b>261932</b>	<b>251541</b>	<b>273677</b>	<b>286741</b>	<b>305306</b>	<b>18565</b>	<b>11.6</b>	<b>4.5</b>
Total expenditure including loan repayment (6.a)	275903	265720	289653	309182	327747	18565	13.2	5.0
<b>Fiscal Deficit (7=6-3)</b>	<b>66037</b>	<b>61564</b>	<b>61137</b>	<b>60581</b>	<b>66646</b>	<b>6065</b>	<b>9.0</b>	<b>-7.4</b>
FD as % of GDP	3.8	2.8	2.8	2.6	2.6		-7.1	-27.1
<b>Memo:</b>								
Nominal GSDP	1721336	2181217	2181217	2333902	2567340	233438	17.7	26.7
Source: Karnataka Budget Volume, SBI Research								

- ◆ In the Budget speech, Government has provided some details of funds planned to implement each of the guarantees, which add up to almost ₹ 60,000 crore annually - ₹ 8,000 crore more than the ₹ 52,000 crore figure given earlier. For the current fiscal (rest of the year) it is estimated that Rs 35,000 to 40,000 crore is required to fulfil the guarantees.
- ◆ The schemes seems to have hit capital expenditure of Karnataka. Of the total expenditure, Rs 2.5 lakh crore will be spent on revenue expenditure (Rs 25,400 more than the interim budget), while only Rs 54,374 crore on capital expenditure (**Rs 6500 crore less than the interim budget**) is supposed to be spent.
- ◆ While the interim budget did not impose any new tax, the final budget has increased the Additional Excise Duty on Indian Made Liquor by 20%, and on beer by 5.71%, proposes to revise guidance value of properties across Karnataka, and set a higher revenue target from stamp duty and registration and also proposes that the tax on certain vehicle categories will be revised, apart from setting high revenue targets for all departments to mobilise resources. **Due to these measures Rs 13,650 crore of extra amount is expected to garner as compared to interim budget, leading tax revenue of Rs 2.1 lakh crore.**
- ◆ **Apart from the proposed increase in taxes, Government also made Rs 8,000 crore additional borrowings to fund the 5-guarantees.** The borrowing has increased by 28% from Rs 67,000 crore in FY23 to Rs 85,818 crore. The FY24 borrowing levels are 39% more than the 5-year average.
- ◆ However, Karnataka may not fall in to debt trap, considering a big state and one of the largest contributors to GST and the state's share of GST from the centre will offset some portion of the debt. **The SGST collection has increased by 50% in the last 3 years.** So, it is expected that will be a good increment in the state's own tax revenues with the increased SGST which will support the Government to lower borrowings.
- ◆ No new programmes have been announced. Bangalore infrastructure development gets Rs 45,000 crore, next only to the Rs 52,000 crore earmarked for implementing the five guarantees.

Expenditure under Five Guarantees				
S.N.	Scheme name	Scheme Purpose	Yearly Expense (Rs Crore)	Expected beneficiaries
1	Shakti scheme	Providing free bus travel to women	4000	50 to 60 Lakh daily travellers
2	Gruha Jyothi	Free electricity upto 200 units for domestic consumers	13,910	More than 2 crore consumers
3	Gruha Lakshmi	Rs 2,000 monthly financial assistance to woman head of the family	30,000	1.25 crore
4	Yuvanidhi	Monthly allowance of Rs 3,000 for degree holders and Rs 1,500 for diploma holders who are unemployed	-	-
5	Annabhagya	An additional 5 kg of food grains every month (in addition to 5 kg of food grains provided by central)	10000	4.9 crore
<b>Total</b>			<b>50000-60000</b>	<b>-</b>

Tax Revenue (Rs Crore)								
Items	FY22	FY23BE	FY23RE	FY24(IBE)	FY24(BE)	Difference (FY24IBE- FY24BE)	FY24(BE)/ FY23(RE) (Growth %)	FY23RE/ FY22 (Growth %)
CGST	9158	9779	11134	12046	12046	0	8.2	21.6
Corporation Tax	9823	9299	11187	11923	11923	0	6.6	13.9
Taxes on Income Other Than Corporation Tax	9624	8981	10880	11600	11600	0	6.6	13.1
Other Taxes on Income and Expenditure	1269	1150	1150	1398	1400	2	21.7	-9.4
Customs	2574	1291	921	1182	1182	0	28.3	-64.2
Union Excise Duties	1539	402	461	495	495	0	7.5	-70.1
Service Tax	528	30	15	7	7	0	-50.0	-97.2
SGST	49929	53220	63220	70502	76150	5648	20.5	26.6
Land Revenue	181	43	43	104	104	0	143.3	-76.5
Stamps and Registration Fees	14020	15000	17000	19000	25000	6000	47.1	21.3
State Excise Duty	26378	29000	32000	35000	36000	1000	12.5	21.3
Sales Tax/VAT	19274	17640	18640	20100	21100	1000	13.2	-3.3
Taxes on Vehicles	6915	8007	9007	10500	11500	1000	27.7	30.2
Taxes and Duties on Electricity	2724	2823	2823	3049	2049	-1000	-27.4	3.7
<b>Tax Revenue</b>	<b>154022</b>	<b>156666</b>	<b>178479</b>	<b>196905</b>	<b>210555</b>	<b>13650</b>	<b>18.0</b>	<b>15.9</b>

Source: Karnataka Budget Volume, SBI Research

### STATES CAPEX

- ◆ States' total expenditure is budgeted to increase around 9% in FY24 compared to over 24% in FY23. This expenditure growth is expected to be driven by capex (much more than budgeted estimates), while revenue spending is expected to grow modestly.
- ◆ In FY23 many states except Bihar and Karnataka spent less than their budgeted capital expenditure. In FY24 however, so far in Apr-May most of the states have spent more than during the same period last year.

Capital Expenditure as % of Budgeted (Apr-May)					
States	FY24	FY23	States	FY24	FY23
<b>All Major States</b>	<b>6.8</b>	<b>4.2</b>	Madhya Pradesh	12.6	11.6
Andhra Pradesh	29.7	3.3	Maharashtra	-0.7	2.8
Bihar	7.4	6.2	Odisha	6.2	3.7
Chhattisgarh	3.2	6.9	Punjab	2.4	0.1
Gujarat	7.9	8.9	Rajasthan	13.0	5.1
Haryana	13.7	9.0	Tamil Nadu	3.9	2.8
Himachal Pradesh	5.5	6.7	Telangana	18.1	2.4
Jharkhand	5.5	1.8	Uttar Pradesh	1.9	1.9
Karnataka*	0.2	0.5	Uttarakhand	3.9	1.5
Kerala	10.7	10.3	West Bengal	7.0	2.3

Source: CAG, SBI Research, \*Apr

- ◆ While the fiscal deficit is expected to be Rs 6,000 crore more than the interim numbers, as a % to GSDP it is retained as 2.6%. This is due to the Rs 2.3 lakh higher nominal GSDP.
- ◆ The subsidy has increased by Rs 14,500 crore in FY24, compared to FY23 RE. A significant cut in agriculture and horticulture subsidy to Rs 2,607 crore from Rs 3,499 crore, subsidy to cooperation has come down to Rs 1,949 crore in FY24 from Rs 2308 crore in FY23, milk subsidy to Rs 1,180 crore from Rs 1,207 crore in FY23. The subsidy to the Food and Civil Supplies Department, which is implementing the Anna Bhagya scheme, has gone up by Rs 7,465 crore to Rs 10,275 crore in FY24 and energy subsidy has gone up by Rs 8,055 crore to Rs 22,158 crore in FY24.

**TAX BUOYANCY @ 1%**

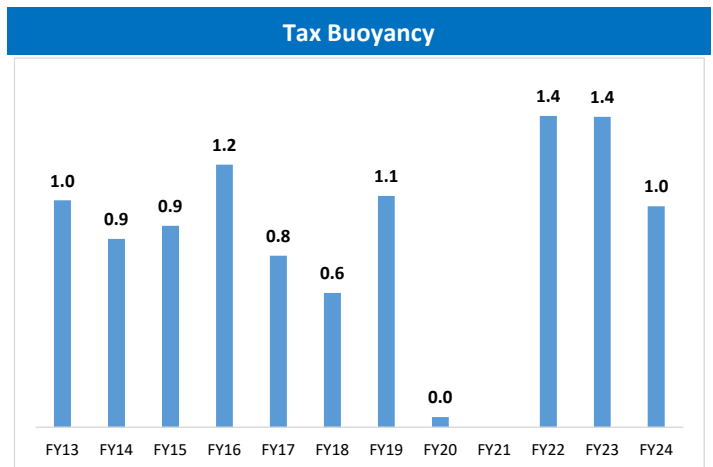
- ◆ The tax buoyancy (based on gross tax revenues) for FY24 is reasonably estimated at 1.0 as nominal GDP growth is projected by 17.7% while gross tax revenues are projected to grow by 18%. However, the FY24 tax buoyancy is less than the preceding two fiscals.

**ARE FREEBIES THE SAME AS WELFARE SCHEMES?**

- ◆ The budgeted 5-poll promises cost Karnataka around Rs 60,000 crore for a year and Rs 35,000/40,000 crore in FY24 (rest of the fiscal), which is 1.5% of GSDP and 15% of revenue receipts.
- ◆ **There is no clear distinction between freebies from welfare schemes.** It is also hard to criticise the term ‘freebie’ as there is no clear definition as discussed earlier, but broadly, it is a transfer of goods & services available to voters at free of cost as a poll promise, which has been used since independence.
- ◆ But, this is the time to rethink which are legitimate welfare measures and which are freebies. **Sometimes freebies like free bicycle to girl child, free breakfast to school children etc. are services that build up social infrastructure.**
- ◆ **The SC panel should fix a band say 1% GSDP or 1% of state own tax collections or 1% to state revenue expenditure for these welfare schemes of the states. With this, the desired welfare schemes can be implemented in a proper way.**

Subsidy Major Heads (Rs crore)			
Subsidy	FY23 RE	FY24 BE	Change
Energy	14103	22158	8055
Food and Civil Supplies	2810	10275	7465
Home and Transport	3627	3764	137
Agriculture and Horticulture	3499	2607	-892
Co-operation	2308	1950	-358
Commerce and Industries	1192	1418	226
Milk	1207	1181	-26
Urban Development and Housing	0	1096	1096
Education	353	398	44
Women and Child Development	187	232	45
Social Welfare	313	182	-131
Animal Husbandry and Fisheries	99	109	10
Information, Tourism and Youth Services	50	32	-18
Forest, Ecology and Environment	3	1	-2
Housing	1054	0	-1054
<b>Total</b>	<b>30804</b>	<b>45402</b>	<b>14598</b>

Source: Karnataka Budget Volume, SBI Research



Source: SBI Research; FY21 not relevant due to negative tax revenue growth

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