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A CRITICAL EVALUATION OF KARNATAKA BUDGET

Recently, Karnataka Government has presented the budget for 2018-19, which offers several innovative sops. Some of the eye catching announcements are: free bus passes for all students, direct fund transfer of Rs 5,000 per hectare subject to a maximum of Rs 10,000 to each farmer who grow rain-fed crops under the Fasal Bima Yojana and to waive loans up to Rs 50,000 availed by shepherds from co-operative banks and loans availed by BPL families from Karnataka Khadi Board etc.

In particular, we appreciate the decision of Karnataka Government to implement "Arogya Karnataka Yojane" (Universal Health Coverage) in 2018 to make available primary and specific secondary and tertiary treatment to all people of the State. This is in line with the Union Budget announcement which is aimed to providing coverage upto Rs 5 lakh per family per year.

In the budget 2018-19, Karnataka Government has estimated the revenue receipts to be Rs 1.63 lakh crores which is 11% higher than the previous year. The State's own tax revenue, including GST compensation, is estimated to be at Rs 1.03 lakh crores, an increase of 13% over 2017-18. In non tax revenue, it expects a collection of Rs 8,163 crore, an increase of 20% over previous year. We believe both the estimates are over ambitious, because if we look at the CAGR growth in last five year prior to 2018-19, the growth rate was 10% in tax revenue and 14% in non-tax revenue. We believe Government is banking on better compliance and hence aggressive GST collections.

One of the important observation regarding Karnataka budget is that over the years the State's share in both tax revenue and non-tax revenue with respect to GSDP is declining. In FY12, Karnataka own tax revenue as percentage of GSDP was 16% which declined to 11.1% in 2017-18. Similarly, the share of non tax revenue has declined from 10.7% to 7.3% during same period. In last three years, Karnataka has become over dependent on market borrowings to finance its fiscal deficit. The ratio of interest payment to Gross Fiscal Deficit has reached 46% in FY19 from 42% in FY17. The same can be figured out from the ratio of total liabilities to GSDP as in FY17 the share was 18.9% is projected to reach 20.4% in FY19.

A CRITICAL REVIEW OF KARNATAKA BUDGET 2018-19

- Recently, Karnataka Government has presented the budget for 2018-19, which offers several sops. Some of the eye catching announcements are: free bus passes for all students, direct fund transfer of Rs 5,000 per hectare subject to a maximum of Rs 10,000 to each farmer who grow rain-fed crops under the Fasal Bima Yojana and to waive loans up to Rs 50,000 availed by shepherds from co-operative banks and loans availed by BPL families from Karnataka Khadi Board etc.
- Though the State budget has focused on the farmers' benefits and brought a universal health policy, in line with Modi care, for the social welfare sectors of the Economy, but our observation is two fold, First, even though the announced budget looks manageable on deficit front but whether the estimated revenue receipt is achievable considering low GST collection at both National and State level since its inception and Second, how these populist schemes may have impacted the capital expenditure, that plays a defining role in creating long term productive assets to the Economy. We believe Government is banking on better compliance and hence aggressive GST collections.
- In the budget 2018-19, Karnataka Government has estimated the revenue receipts to be Rs 1.63 lakh crores which is 11% higher than the previous year. The State's own tax revenue, including GST compensation, is estimated to be at Rs 1.03 lakh crores, an increase of 13% over 2017-18. In non tax revenue, it expects a collection of Rs 8,163 crore, an increase of 20% over previous year. We believe both the estimates are over ambitious, because if we look at the CAGR growth in last five year prior to 2018-19, the growth rate was 10% in tax revenue and 14% in non-tax revenue.
- Under Revenue expenditure, State Government has projected the cost to be increased by Rs 16,988 crore (10%) over previous years but, if we look at disaggregate level some major overheads like Pensions (Rs 2739 crore), Administrative Services (Rs 4267 crore) and Interest Payment (Rs 2040 crore) which are coming under General Services will cost additional Rs 8901 crore to the Government over previous year. As, these expenditure are generally used to meet the day to day expenses of the Government, So, an increment on it and at the same time reducing capital expenditure (Rs 1539 crore) may not be beneficial in the long run.
- Under Capital expenditure which is essential to build infrastructure, in budget FY19, Government has reduced the allocation to some of major services like Transport (Rs 2117 crore), Public Health (Rs 466 crore), Education (Rs 341 crore), etc.

Karnataka Budget at a Glance (Rs Crore)

item	2016-17	2017-18 (RE)	2018-19 (BE)	2017-18 (RE)	2018-19 (BE)	Five Year CAGR
REVENUE RECEIPTS	**133214**	**146033**	**162765**	**10%**	**11%**	**13%**
(i) Own Tax Revenue	82956	91718	103444	11%	13%	10%
(ii) Non-Tax Revenue	5795	6828	8163	18%	20%	14%
(iii) Share in Central Taxes/Duties	28760	31752	36215	10%	14%	23%
(iv) Grants in Aid	15703	15736	14942	0%	-5%	15%
REVENUE EXPENDITURE	**131921**	**145649**	**162637**	**10%**	**12%**	**13%**
(A) General Services	31265	36032	44933	15%	25%	10%
(B) Social Services	54549	57909	64193	6%	11%	15%
(C) Economic Services	40421	44577	47477	10%	7%	14%
CAPITAL RECEIPTS	**31283**	**37230**	**39533**	**19%**	**6%**	**21%**
(I) Internal Debt	29238	35422	37125	21%	5%	22%
(II) Loans and Advances from GoI	1918	1671	2203	-13%	32%	10%
Captial Expenditure	28150	31231	29691	11%	-5%	17%
Revenue Surplus	1293	384	127			
Fiscal Deficit (% of GSDP)	2.57%	2.70%	2.49%		-	
Total Liabilities (% of GSDP)	18.9%	18.9%	20.4%			

Source: Budget Documens, Department of Finance, Karnataka, SBI Research

- We do believe that, the projected GST collection for FY19 by Karnataka Government is aggressive, because if we go by the GST collection figures since Jul'17 at both national and State level, it had registered a steady drop till Nov'17 but the collections has slightly improved in December and again it declined in Jan'18. In FY18, during first six month since GST inception (Jul'17 to Nov'17), the total collection of GST for Karnataka was Rs 24,563 crore and for the whole FY18 it was estimated Rs 31,675 crore. Considering the declining trend, we believe that budgeted figure for FY19 at Rs 54,595 crore may be on the higher side.
- Even though the State Government has decided to improve the tax collection by increasing the existing rates of additional Excise Duty on Indian made liquor by 8% from the second slab onwards to 18th slabs, but it may still not be sufficient enough to cover the revenue loss.
- One of the important observation regarding Karnataka budget is that over the years the State's share in both tax revenue and non-tax revenue with respect to GSDP is declining. In 2011-12, Karnataka own tax revenue as percentage of GSDP was 16.07% which is declined to 11.14% in 2017-18. Similarly, the share of non tax revenue has declined from 10.7% to 7.3% during same period. In last three years, Karnataka has become over dependent on market borrowings to finance its fiscal deficit. The ratio of interest payment to Gross Fiscal Deficit has reached 46% in FY19 from 42% in FY17. The same can be figured out from the ratio of total liabilities to GSDP as in FY17 the share was 18.9% is projected to reach 20.4% in FY19. Now, it is an alarming signal to the State Government, to improve its tax base in order to avert a deteriorating fiscal situation in future.

Karnataka Tax Collections (Rs Crore)

Item	2016-17	2017-18 (RE)	2018-19 (BE)
Central GST	...	4383	11954
State GST	...	24088	41650
Integrated GST	...	3205	990
Total Goods and Service Tax	**...**	**31675**	**54594**
Corporation Tax	9211	9721	10429
Income Tax	6402	8209	9229
Land Revenue	209	253	285
Stamps and Registration Fees	7806	9000	10400
Customs	3962	2340	1830
Union Excise Duties	4525	2423	1783
State Excise	16484	17600	18750
Taxes on Sales,Trade etc.	46105	24486	12412
Taxes on Vehicles	5594	6006	6600
Taxes on Goods and Passengers	3306	1263	...
Taxes and Duties on Electrictiy	1452	1323	1581
Service Tax	4639	1472	...
Other Taxes	2022	1568	966
Total Tax Revenue	**111716**	**117340**	**128860**

Source: Budget Documens Karnataka, SBI Research

Trends in Share of Various Heads in Karnataka GSDP

	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18 (RE)	2018-19 (BE)
REVENUE RECEIPTS	**16.1%**	**15.0%**	**14.9%**	**15.2%**	**16.1%**	**11.9%**	**11.1%**	**11.6%**
Own Tax Revenue	10.7%	10.3%	10.4%	10.2%	10.3%	7.4%	7.0%	7.3%
Non-Tax Revenue	0.9%	0.8%	0.7%	0.7%	0.7%	0.5%	0.5%	0.6%
Share in Central Taxes/Duties	2.6%	2.4%	2.3%	2.1%	3.3%	2.6%	2.4%	2.6%
Grants in Aid	1.9%	1.5%	1.5%	2.1%	1.9%	1.4%	1.2%	1.1%
REVENUE EXPENDITURE	**15.0%**	**14.7%**	**14.8%**	**15.1%**	**15.9%**	**11.8%**	**11.1%**	**11.5%**
General Services	3.8%	3.9%	4.1%	4.1%	4.2%	2.8%	2.7%	3.2%
Social Services	5.8%	5.8%	5.4%	5.7%	6.3%	4.9%	4.4%	4.6%
Economic Services	4.4%	4.2%	4.4%	4.4%	4.6%	3.6%	3.4%	3.4%
CAPITAL RECEIPTS	**2.2%**	**2.6%**	**2.9%**	**3.2%**	**2.9%**	**2.8%**	**2.8%**	**2.8%**
Internal Debt	1.9%	2.3%	2.7%	3.0%	2.7%	2.6%	2.7%	2.6%
CAPITAL EXPENDITURE	**3.6%**	**3.0%**	**2.8%**	**2.9%**	**2.8%**	**2.5%**	**2.4%**	**2.1%**
FISCAL DEFICIT	**2.8%**	**2.8%**	**2.8%**	**2.9%**	**2.6%**	**2.6%**	**2.7%**	**2.5%**
REVENUE SURPLUS	1.1%	0.4%	0.1%	0.1%	0.2%	0.1%	0.0%	0.0%
INTEREST PAYMENTS	**1.4%**	**1.3%**	**1.3%**	**1.4%**	**1.5%**	**1.1%**	**1.1%**	**1.2%**
PRIMARY DEFICIT	**1.4%**	**1.5%**	**1.5%**	**1.5%**	**1.1%**	**1.5%**	**1.6%**	**1.3%**

Source: Budget Documens, Department of Finance, Karnataka, SBI Research

WAY FORWARD

- We appreciate the decision of Karnataka Government to implement "Arogya Karnataka Yojane" (Universal Health Coverage) in 2018 to make available primary and specific secondary and tertiary treatment to all people of the State. This is in line with the Union Budget announcement "Ayushman Bharat'' scheme which is aimed to providing coverage upto Rs 5 lakh per family per year.
- Though this year budget could be termed as a populist budget considering the upcoming State election, we believe it could have been even better if the allocation towards capital expenditure was also focused, so that deficiency in physical infrastructure of the State would have been addressed.

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ABOUT US

The Economic Research Department (ERD) in SBI Corporate Centre is the successor to the Economic and Statistical Research Department (E&SRD). The latter came into being in 1956, immediately after the State Bank of India was formed, with the objective of "tendering technical advice to the management on economic and financial problems in which the Bank has interest and which required expert analysis".

After the first reorganization of the Bank, when specialized departments like Management Science, Management Information Systems, Planning and Market Segment Departments took over the statistical work of E&SRD, the Department was renamed as ERD.

However, with the ERD team now taking on multidimensional functionalities in the area of risk management , corporate analytics, strategy and so on, who knows, the time may have come to rename it again!

DISCLAIMER

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