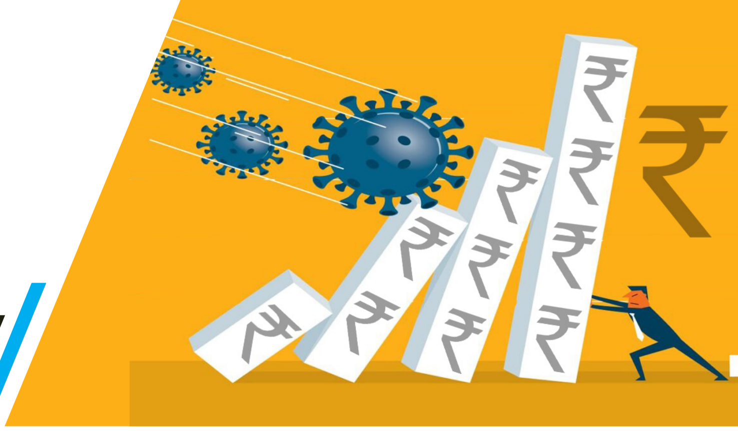
CHAPTER - 4

FISCAL MANAGEMENT DURING THE PANDEMIC



Summary

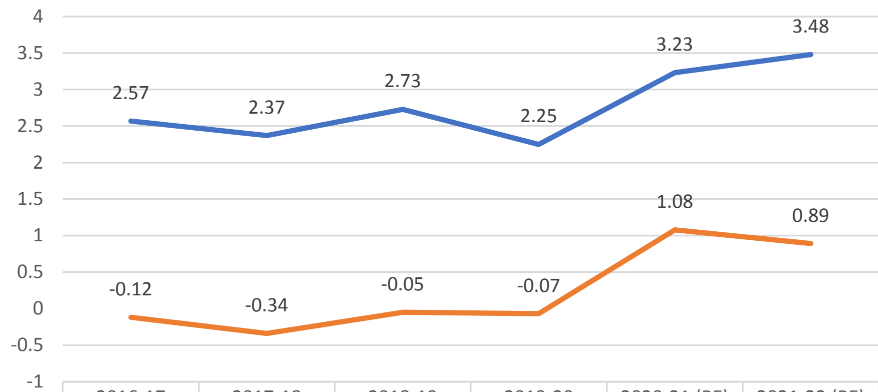
Covid-19 has dented the GDP growth of India in 2020-21, which showed a growth contraction of -7.3 per cent. Similar to this all India trend, Karnataka economy also experienced a slowdown in this period. The real GDP growth for the year 2020-21 was estimated to be at -2.6 per cent. Despite this negative economic growth, the state has better fiscal condition through prioritizing expenditures as well as improving revenue collections. The adverse impact of pandemic on economy continued in 2021-22 as well, especially in the first half of the year. Introduction of lock-down due to the second wave of covid-19 in April-May 2021 has adversely affected the economic activities and, hence, revenue collection in the first half of the financial year 2021-22. Later, with the unlocking of the economic activities beginning July 2021 and with swift and successful vaccination drive by the state government has resulted in sharp recovery of the economic activities in the state (Karnataka has become the first state to achieve 100 per cent coverage of first dose of vaccination for Covid-19 among eligible people). This is especially visible in the contact-intensive sectors such as trade, transport, IT, and other services sectors. One indicator that could support such sharp recovery is the FDI data that suggest in the current financial year (till December 2021) Karnataka has attracted over Rs 1.6 lakh crore, which is highest for any state in the country. The inflow of FDI is across sectors such as technology, aerospace, start-ups, fintech, agritech, food processing, etc. However, with the onset of third wave and with the spread of new corona variant (Omicron) could slow the extent of recovery. Despite the third wave, with large investments flow into the economy and with various fiscal measures that the state has adopted, it is possible that Karnataka could top the 9.2 per cent growth (as per first Advance Estimates) that all India is expected to achieve in the current financial year. Further, similar to all India trends, Karnataka could achieve the nominal GDP growth of over the assumed level of 14.4 per cent in the 2021-22 Budget. This has implications for the fiscal position of the state. However, with the increasing government expenditure and declining government revenues, keeping the fiscal deficit at a low level is challenging. However, Karnataka managed to contain the fiscal deficit to 3.23 per cent of GSDP in 2020-21(RE). Further, for 2021-22(BE), the fiscal deficit has been targeted at 3.48 per cent, which is marginally higher than in the previous year.

4.1 FISCAL CONSOLIDATION

In terms of fiscal consolidation that reflects the extent of fiscal discipline as well as the quality of government expenditures, the state of Karnataka has been in the forefront and has always maintained fiscal prudence as one of its main policy goals. The fiscal consolidation efforts in the state have continued and has ensured all the fiscal parameters are within the stipulated limits of the Karnataka Fiscal Responsibility Act, 2002 (KFRA). Fiscal and revenue deficits for the period 2016-17 to 2021-22(BE) are presented in Figure 4.1. Over the last several years with an exception in 2020-21, the fiscal deficit could be maintained within 3% of GSDP as mandated by the KFRA and managed by the Government of India. The state has budgeted the fiscal deficit at 3.48% of GSDP in 2021-22 (BE) in spite of the relaxation of this limit to 4% of GSDP following the pandemic (as suggested by the 15th Finance Commission). For 2022-23 and for 2023-24, the 15th

Finance Commission suggests a fiscal deficit target of 3.5 and 3 per cent, respectively, for the state governments. As the fiscal deficit is already below 3.5 per cent, achieving these targets in the next two years may not be difficult for the state of Karnataka. But, most importantly, despite the pandemic, there is no deterioration of the quality of expenditure with the state ring-fencing the public capital expenditure (fiscal deficit minus revenue deficit) around 2.2 per cent. Widening on the revenue account from surplus to deficit is not as substantial as compared to Centre as well as the other state governments. However, this is different from the suggested surplus on the revenue account by the states as per the 'indicative' roadmap suggested by the 15th Finance Commission (page. 373, Table 12.4, Vol.1, 15th Finance Commission).

Figure 4.1 Revenue Deficit and Fiscal Deficit as a % to GSDP



	2016-17	2017-18	2018-19	2019-20	2020-21 (RE)	2021-22 (BE)
Fiscal deficit as a % of GSDP	2.57	2.37	2.73	2.25	3.23	3.48
Revenue deficit as a % of GSDP	-0.12	-0.34	-0.05	-0.07	1.08	0.89

Source: Economic Survey 2020-21, Planning Department, GoK and Overview of Budget 2021-22, Finance Department, GoK.

Broadly, at the macro level, while the fiscal situation is under control, ensuring increase in public capital expenditure on a sustainable basis appears to be a challenge to the state of Karnataka going forward. However, in comparison with other states, Karnataka is better placed, and this is explained in the next section.

4.2 KARNATAKA vis-à-vis OTHER STATES

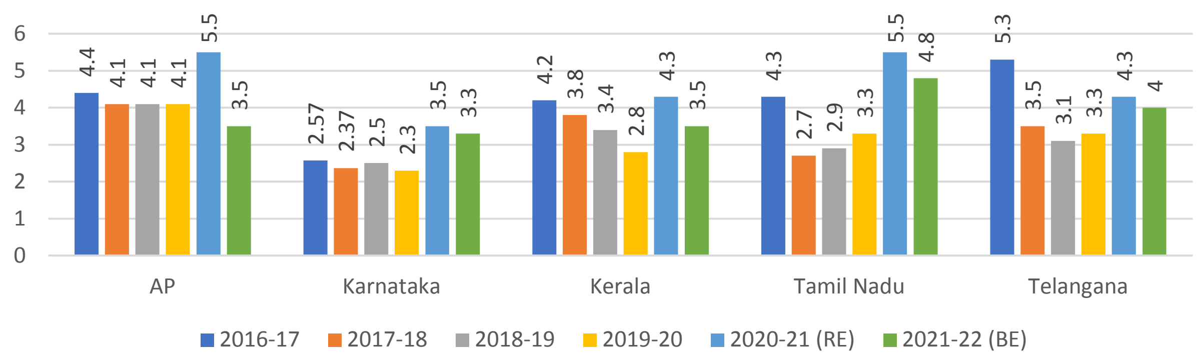
In the past few years, the Karnataka's major fiscal parameters fared well when compared with the 'all states' average. This is reflected in the trends in various fiscal parameters presented in Table 4.1. The State has been maintaining revenue surplus until the on-set of Covid-19. Further, the State has a capital outlay of 95.3% in the GFD as compared to a deterioration to 81.37% for all States average in 2019-20(RE). These numbers suggest that almost all of fiscal deficit is channelled towards government Capital Expenditure, which is the crux of the KFRA and this is expected to help in achieving rapid economic growth in the state. However, Karnataka could face a severe task of reverting to surpluses on the revenue account that was the highlight of the state fiscal situation so as to enhance infrastructure investments in the state. Other parameters such as ratio of State Tax Revenue in the Revenue Expenditure and Non-development Expenditure as ratio of Aggregate Disbursements all suggests that Karnataka is in a better position compared to 'all states'.

Table 4.1: Major Fiscal Indicators of Karnataka										
Fiscal Indicators	**2016-17 (Accounts)**		**2017-18 (Accounts)**		**2018-19 (Accounts)**		**2019-20 (Revised Estimates)**		**2020-21 (Budget Estimates)**	
	KAR	**All States**	**KAR**	**All States**	**KAR**	**All States**	**KAR**	**All States**	**KAR**	**All States**
RD/GFD	-4.50	7.58	-14.52	4.59	-1.77	3.84	-0.74	20.95	-0.31	0.03
Capital Outlay/ GFD	98.22	95.89	98.60	95.89	90.16	95.15	95.30	81.37	93.46	95.51
Non-dev. Expenditure/ Aggregate Disbursement	19.10	26.20	26.91	28.20	20.30	28.30	22.90	27.50	25.50	28.70
STR/RE	62.88	51.90	65.54	56.00	63.50	54.30	61.70	51.30	66.60	53.10

RD = Revenue Deficit, GFD = Gross Fiscal Deficit, STR =State Tax Revenue, RE = Revenue Expenditure
Source: Economic Survey 2020-21, Planning Department, GoK and RBI-Study of budgets, 2020-21, Statements-1 and 4.

When the fiscal situation of Karnataka is compared with other southern states, which are largely comparable in terms of strength, structure, inter-connectedness as well as proximity of the economies, it is clear that Karnataka has performed better in managing its fiscal position (see figure 4.2). Among the five southern states, Karnataka registered lowest fiscal deficit. Karnataka recorded the lowest fiscal deficit (3.48%) among the southern states with Andhra Pradesh (at 5.5%), Kerala (4.3%), Tamil Nadu (5.5%) and Telangana (4.3%) having the fiscal deficits at a higher level. It may be mentioned that except Karnataka, all the four other southern states have exceeded 15th Finance Commission's indicated fiscal deficits. Similarly, in 2021-22, Karnataka's fiscal deficit is budgeted to be at 3.3% when compared to Andhra Pradesh, Kerala, Tamil Nadu and Telangana that have budgeted a higher fiscal deficit of 3.5%, 3.5%, 4.8% and 4%, respectively.

Figure 4.2: Karnataka's Fiscal Deficit (as a % of GSDP) Compared with the Southern States



Source: Economic Survey 2020-21 Planning Department, GoK and RBI Report on State Finances: A Study of Budgets of 2021-22, Table II.5.

The latest data on net borrowings of the state also suggest that among the southern states, Karnataka has a net market borrowings of Rs 8500 crores as on mid-January 2022 (RBI Bulletin, January 2022) (with Andhra Pradesh, Tamil Nadu, Telangana, and

Kerala borrowing Rs 24739 crores, Rs 40,000 crores, Rs 22211 crores and Rs 16,000 crores respectively). And this is substantially lower than the state's borrowings in the whole of 2020-21, which was at Rs 61,900 crores. While some part of the reason for such lower market borrowing could be due to revenues (especially the central transfers of both direct and indirect taxes) exceeding the Budget estimates, the efforts on rationalization of public expenditures also could have helped to some extent.

4.3 STATE FINANCES

Karnataka has been in the forefront in terms of adhering to the fiscal consolidation efforts as mandated by the FRA. To achieve this, similar to the Centre's Expenditure Management Commission, the state had its own Expenditure Reforms Commission. Based on the Commission's recommendations, by and large, the state has been protecting the targets on the capital outlays even when there are some distresses on the revenue side. In other words, the state has been trying not to resort to compression of capital outlays even when there are revenue shortages compared to budgeted numbers. In addition to expenditure reforms, the state has also undertook tax reforms and revamped the tax administration, which seems to have yielded results in terms of higher revenue receipts. This may be noted in Table 4.2 where except for 2020-21, the revenue receipts have seen an average annual growth of about 10 per cent until the Covid-19 shock. Following this trend, the State has projected the revenues for 2021-22 to grow at about 7.9 per cent. This expected growth is reasonable compared to the trends at all India level. As a ratio of GSDP, again, the state average numbers of about 11 per cent are comparable with all India figures. Unlike many other states, Karnataka also generates significant capital receipts (net) through implementing Expenditure Reforms Commission as well as through restructuring of public sector undertakings. The share of net capital receipts that are below 3 per cent in the past four years, is expected to jump to 3.75 per cent in 2020-21 and this is despite being the pandemic year.

In terms of expenditures, there is a decline in the revenue expenditure from 11.81 per cent in 2016-17 to 9.94 per cent by 2020-21. This compression in revenue expenditure seems to help in retaining the capital expenditure above 2 per cent of GSDP, thus, suggesting no compression even during the revenue shock period. Such fiscal consolidation framework augurs well for the state in order to double the state's income in coming 4 to 5 years.

Revenue Receipts and its Composition:

As may be noted in Table 4.3, the major component of the State's revenue receipts is the own tax collections. The annual average share of the state's own tax in the last five years is about 7.12 per cent. Again, this compared to other states, it is higher. However, serious cause for concern is the declining share of central taxes, which has been declining continuously from 2.57 per cent in 2016-17 to 1.11 per cent in 2020-21. Going forward, as per the 15th Finance Commission recommendations, the share is expected to be close to 2020-21 level, which could worsen the fiscal condition of the state. The trend is expected to be similar when we look at the grants from the centre which has declined from 1.41 per cent to as low as 0.78 per cent in 2020-21. The other source of revenue receipts, i.e., non-tax revenue, has been sticky at around 0.5 per cent. This shows constraints that the government faces in mobilizing additional non-tax revenues. Any progress on the proposed asset monetization policy in the state should help in improving more non-tax revenues in the coming years.

Table4.2: Receipts and expenditure of Karnataka (Rs. crore)						
Items/ Years	**2016-17 (A/Cs)**	**2017-18 (A/Cs)**	**2018-19 (A/Cs)**	**2019-20 (A/Cs)**	**2020-21 (RE)**	**2021-22 (BE)**
Revenue receipts	133213.79	146999.65	164978.66	175442.79	159709.05	172271.17
Revenue expenditure	131920.75	142482.33	164299.85	174257.40	179194.85	187404.77
Capital receipts(net)	32378.98	35380.85	42405.05	42907.18	67578.07	64873.97
Capital Disbursements	33524.00	39278.14	42812.17	43468.42	43129.76	48302.08
Capital outlay (outside the revenue account)	28150.43	30666.76	34659.32	35529.44	37146.29	41358.12
% of GSDP						
Revenue receipts	11.92	11.09	11.72	10.33	8.85	10.12
Revenue expenditure	11.81	10.75	11.67	10.26	9.94	11.01
Capital receipts (net)	2.90	2.67	3.01	2.53	3.75	3.81
Capital Disbursements	2.52	3.00	3.04	2.56	2.06	2.43
Capital outlay (outside the revenue account)	3.00	2.31	2.46	2.09	2.39	2.84

Source: (i) Economic Survey 2020-21, Planning Department, GoK (ii)Annual Financial Statement 2021-212) (iii) Medium Term Fiscal Plan (2021-25), Finance Department, GoK(iv) Volume I of Budget Documents 2021-22, Finance Department GoK
Note: (a) Capital Receipts (net) does not include (i) Miscellaneous Capital Receipts; (ii) Ways and Means and Market Borrowings but include Contingency Fund(net) and Public Account(net). (b) Capital Disbursement does not include Ways and Means and Market Borrowings

Table 4.3: Composition of revenue receipts (% of GSDP)						
Year	**2016-17 (A/Cs)**	**2017-18 (A/Cs)**	**2018-19 (A/Cs)**	**2019-20 (A/Cs)**	**2020-21 (RE)**	**2021-22 (BE)**
State taxes	7.42	7.12	7.64	6.88	6.53	7.30
Share of central taxes	2.57	2.42	2.55	1.82	1.11	1.43
Grants from centre	1.41	1.17	1.05	1.18	0.78	0.91
Non-Tax Revenue	0.52	0.49	0.48	0.45	0.43	0.49

Source:
(i) Economic Survey 2020-21, Planning Department, GoK
(ii) Medium Term Fiscal Plan (2021-25), Finance Department, GoK.

On Finance Commission Grants

One of the important and serious challenge for the state of Karnataka during the 15th Finance Commission period is the decline in the share of state in the divisible of pool of central taxes. It has declined from 1.98 per cent during the 14th Finance Commission period to 1.5 per cent in 2020-21 and also during the five-year period of the 15th Finance Commission (i.e., 2021-26). Based on the 15th Finance Commission's own estimates, Karnataka could see the decline in central tax transfers by about 24.5 percent between the two Commission's recommendations, which is going to pose a severe challenge for the state to cope up in the next five years.

Table 4.4: Finance Commission Grants Recommended for all states and Karnataka (for 2021-26 (in Rs crore))

Grants	All states	Karnataka	Karnataka share in total (in %)
Revenue Deficit grants	294514	1631	0.6
Grants for Local Bodies	436361	21877	5.0
Sector-specific grants	129987	4560	3.5
Grants under disaster management	122601	4369	3.6
State-specific grants	49599	6000	12.1
Total	**1033062**	**38437**	**3.7**

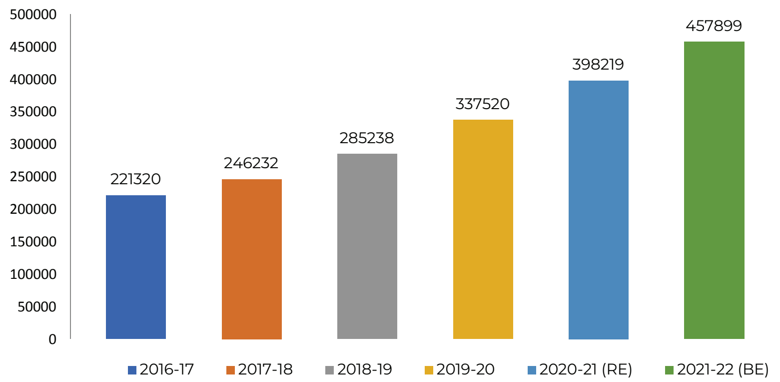
Source: PRS India and own estimates.

It may be noted in table 4.4, the overall share of the Finance Commission grants for Karnataka is about 3.7 per cent which is reduction of over one percentage point compared to 14th Finance Commission, which was at 4.713 per cent.

Outstanding Liabilities

Similar to the trends at the Union Government, the states are also expected to exceed their targets on outstanding liabilities as set by their respective state legislations. In the case of Karnataka also, as presented in the Medium-Term Fiscal Plan of 2021-25, the outstanding liabilities (as per cent of GSDP) is expected to have increased by over 7 percentage points between 2019-20 and 2021-22 (see Figure 4.4) and in terms of levels, it is expected to increase by Rs 1.2 lakh crore in the same period (see figure 4.3).

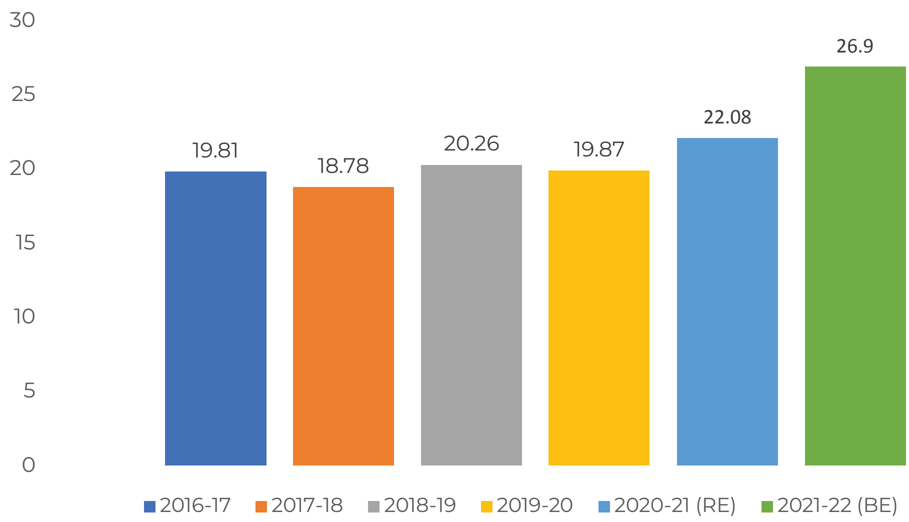
Figure 4.3: Total liabilities of State Government (Rs. Crore)



Source:(i) Economic Survey 2020-21, Planning Department, GoK (ii) Medium Term Fiscal Plan (2021-25), Finance Department, GoK

Further, the Medium-Term Fiscal Plan 2021-25 suggest that the outstanding liabilities to stabilize at 27.1 per cent by 2024-25. This is almost similar to what the 15th Finance Commission estimated for the state. The Commission estimates that if the state follows the fiscal deficit targets as suggested by the Commission, the outstanding liabilities is expected to be at 27.1 per cent even by 2025-26, which is the last year of the Finance Commission period. Even to achieve this, the state needs to bring down the fiscal deficit to 3 per cent for the period 2023-26.

Figure 4.4: Total liabilities (as a % to GSDP)



Source:(i) Economic Survey 2020-21, Planning Department, GoK (ii) Medium Term Fiscal Plan (2021-25), Finance Department, GoK

4.4 BUDGETARY DEVELOPMENTS IN 2021-22

4.4.1 Main trends

Revenue receipts largely follows the extent of economic activities. With the recovery in most of the economic activities in 2021-22, the state is in a position to improve its revenue collection capacity. However, as may be noted in Table 4.5, volatility in GSDP growth appear to affect the composition of receipts while broadly retaining the overall revenue growth between year of economic slump as well as in the year of recovery. While the growth rate of receipts is 4.1 per cent in 2020-21 and 4.51 in 2021-22, the growth of capital receipts in the year of slump (in 2020-21) is as high as 57.4 per cent with revenue receipts registered a negative growth of 8.9 per cent. However, in 2021-22, it is budgeted to be oppositive with revenue receipts expected to grow positively at 7.87 per cent while capital receipts to decline by 3.41 per cent. In terms of shares, in the year of slump, the share of revenue and capital receipts on total are 72.51 and 27.49 per cent while the same in 2021-22(BE) are 79.5 and 20.50 per cent.

In the case of expenditures, the trends are opposite of revenues. In the year of slump (2020-21), due to decline in the revenues, capital expenditures becomes a natural casualty as it declined by 0.8 per cfent. However, when the economy recovers, large capital expenditures are planned in 2021-22 and is expected to increase by 11.99 per cent. Indeed, Karnataka adopted an expansionary policy during 2021-22 with an expected total increase of 6.02 per cent against 2.1 per cent in 2020-21.

The trends in both revenues and expenditures only suggest that the state could adopt to the evolving economic conditions imposed by the Covid-19.

Table 4.5: Overall Budgetary Position (Rs. crore)						
	Receipts and Disbursements	**2019-20 (A/C)**	**2020-21 (RE)**	**2021-22 (BE)**	**% variation (2020-21 over 2019-20**	**% variation (2021-22 over 2020-21)**
A.			Receipts			
1	Revenue Receipts	175442.79	159709.05	172271.17	-8.9	7.87
2	Capital Receipts	42952.25	67606.07	65301.29	57.4	-3.41
	Total A: (1+2)	218395.04	227315.12	237572.46	4.1	4.51
B.			Disbursements			
1	Revenue Expenditure	174257.40	179194.85	187404.77	2.8	4.58
2	Capital Expenditure	43468.42	43129.76	48302.08	-0.8	11.99
	Total B :(1+2)	217725.82	222324.61	235706.85	2.1	6.02

A/C: Accounts, R.E.: Revised Estimates, B.E.: Budget Estimates
Note(i) Ways and means and Market Borrowings have not been included in the Capital receipts and expenditure.
Sources: Annual Financial Statement 2021-22 and Volume I of Budget documents 2021-22.

Table 4.6 provides the details about some of the crucial indicators between 2020-21 (RE) and the 2021-22 (BE). This has both aggregate revenue and expenditure indicators for different classification. The table also provides both per capita revenue receipts as well as per capita expenditures. Per capita revenues (Rs 24367) being more than per capita developmental expenditure (Rs 22354) for 2021-22 suggest that gap being used for financing non-developmental expenditures such as debt servicing. Indeed, the share of developmental expenditure in total expenditure has shown a marginal decline from 68.11 per cent in 2020-21 to 67.05 per cent in 2021-22. This only hints about upside risk with respect to raising outstanding liabilities of the state going forward (as per the recent MTFP, it is expected to increase to 27.1 per cent by 2024-25)

Table 4.6 Important Budgetary Indicators: Karnataka				
Sl. No.	**Indicator**	**Unit**	**2020-21 (RE)**	**2021-22 (BE)**
1	Aggregate Receipts (Revenue + Capital)	Rs. Crore	227315.12	237572.46
2	Revenue Receipts	Rs. Crore	159709.05	172271.17
3	State's Own Tax Revenue	Rs. Crore	117782.00	124202.00
4	Per Capita State's Own Tax Revenue	Rupees	16898.00	17567.00

R.E.: Revised Estimates, B.E.: Budget Estimates
Per capita are calculated on projected population of 2020 and 2021
Source: Annual Financial Statement 2021-22, Finance Department, GoK

Table 4.6 Important Budgetary Indicators: Karnataka				
Sl. No.	**Indicator**	**Unit**	**2020-21 (RE)**	**2021-22 (BE)**
5	Sales Tax / VAT Collection	Rs. Crore	15230.78	16791.00
6	Share of Sales Tax /VAT in the State's Own Tax Revenue	%	12.93	13.52
7	Non-Tax Revenue including Grants from the Centre	Rs. Crore	21875.00	23796.00
8	Share of Non-Tax Revenue in Revenue Receipts	%	13.70	13.81
9	Debt Receipts	Rs. Crore	70382.24	71331.82
10	Share of Debts Receipts in Aggregate Receipts	%	30.96	30.07
11	Per Capita Revenue Receipts	Rupees	22914	24367
12	Aggregate Expenditure (Revenue + Capital)	Rs. Crore	222324.61	235706.85
13	Developmental Expenditure	Rs. Crore	151424.44	158041.14
14	Per Capita Development Expenditure	Rupees	21725	22354
15	Share of Developmental Expenditure in Total Expenditure	%	68.11	67.05

R.E.: Revised Estimates, B.E.: Budget Estimates
Per capita are calculated on projected population of 2020 and 2021
Source: Annual Financial Statement 2021-22, Finance Department, GoK

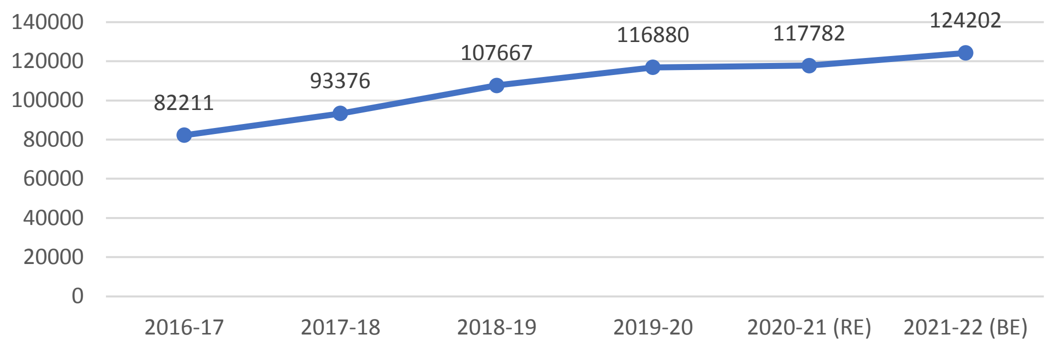
4.4.2 Receipts

4.4.2.1 Revenue Receipts

By definition, total revenue receipts include four major components: own tax revenue, non-tax revenue, devolution from the Central Government and Grants-in-Aid & contributions. The large chunk of revenue receipts is coming from state's own tax revenue which is estimated to be 72.10 per cent in 2021-22(BE). The share of State's own tax revenue in the total revenue receipts is of the order 72.10 per cent in 2021-22(BE). The tax devolution from Government of India constitutes 14.09 per cent of revenue receipts. The lowest contributor to the revenue receipts is coming from the non-tax revenue (4.79 per cent). The rest 9.02 per cent of the revenue receipts is in the form of Grants - in - aid from Central Government. The State's own tax revenue in 2021-22(BE) is anticipated to increase by 5.45 per cent and non-tax revenue 6.84% over 2020-21(RE). The tax devolution from Government of India is expected to increase by 21.04 per cent in 2021-22 (BE) over 2020-21 (RE) while the Grants - in - aid is expected to increase by 9.85 per cent during the same period. Overall, the revenue position in 2021-22 is expected to be better compared to 2020-21. However, going forward, there could be increased pressure on the state's own tax and non-tax revenue if the state has to increase both social sector as well as capital expenditures.

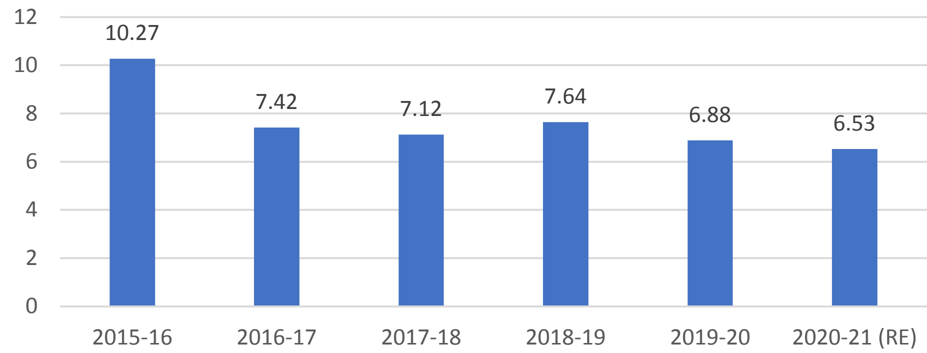
a) Tax Revenues and Tax effort: The State's own tax revenues (SOTR), which is identified as a crucial parameter to understand the fiscal strength of the State, is expected to increase by 5.5 per cent in 2021-22 and reach to Rs.124202 crore. **Figure 4.5** suggest that even during the pandemic year, the SOTR still could register a positive growth, although very marginal growth of 0.77 per cent. While it could reflect the efficiency of the tax administration in the state, looking at the tax effort data, which is showing a declining trend, as shown in Figure 4.6, do raise concern with regard to tax administration and its efficiency.

Figure 4.5 State's Own Tax Revenue (Rs. crore)



Source: (i) Economic Survey 2020-21, Planning Department, GoK (ii) Medium Term Fiscal Plan (2021-25), Finance Department, GoK

Figure 4.6: Tax-GSDP Ratio



Source:(i) Economic Survey 2020-21, Planning Department, GoK (ii) Medium Term Fiscal Plan (2021-25), Finance Department, GoK

With respect to composition of the total revenue receipts, while there are various sources, as shown in Figure 4.5, the State's own tax revenue has been performing very well. The tax revenue (consisting of taxes on income &expenditure, entry tax, property and capital transactions, VAT, sale of goods, commodities & services, State excise, motor vehicle taxes and the State's share in central taxes) is estimated at Rs.1.49 lakh crore in 2021-22(BE) as against Rs.1.38 lakh crore in 2020-21(RE). Goods and Service Tax (GST) is the main source of indirect tax revenue comprising little over a quarter of Revenue Receipts in 2021-22(BE). In the last Budget, the state government assumes the State GST growth of 21.44 per cent in 2021-22(BE).

b) The State's share in central taxes is (as per the Union Budget) anticipated to increase by Rs.4219.65 crore, a growth of 21.04 per cent in 2021-22(BE) over 2020-21(RE).

c) Non - tax Revenues: Unlike at all India level, at the state level, the role of non-tax revenue in the overall revenues are expected to be lower. The non-tax revenues, which is largely through the usage of social, economic and general services as well as a small component of interest and dividends, is expected to increase from Rs 7729 crore in 2020-21 to Rs 8258 crore in the current financial year. However, the share of these revenues in the total revenues have been declining over the years and is currently at less than 5 per cent. This suggest that there are increasing implicit subsidies in the form of un-recovered user charges across the services. And this could pose serious challenge to the fiscal strength of the state. At all India level, the latest estimates suggest that these subsidies (both explicit and implicit) are estimated to be about 10.3 per cent and large chunk of these are provided by the states . Any effort to reduce these subsidies could be beneficial for increasing social sector expenditure at the state. For a state like Karnataka with non-tax revenue being just about one per cent of GSDP, it suggests a substantially low recovery costs, user charges, fees, etc. Here it is necessary to relook at the recommendations of the Expenditure Reforms Commission and implement in order to improve this source of revenues.

4.4.2.2 Capital Receipts

As noted earlier, in the slump period it is the capital receipts that has substituted the decline in the revenue receipts. Here capital receipts could come in the form of loans from Central Government, internal debt management (excluding ways & means advances and market loans), public accounts (net), recoveries of loans & advances, contingency funds (net) and miscellaneous capital receipts. With the recovery in the economy and expected recovery in the revenue receipts, the state has budgeted a lower capital receipts of Rs.65301 crore for 2021-22(BE), which is lower by 3.41 per cent compared to 2020-21(RE). It is estimated that while the resources through internal debt, public account, recoveries of loans and advances are expected to decline, the state budgets a higher loan from the Central Government.

Table 4.7: Revenue and Capital Receipts, Karnataka 2019-20 to 2021-22 (Rs. Crore)

Category of Receipts		2019-20 (A\Cs)	2020-21 (RE)	2021-22 (BE)	% Variation 2021-22 over 2020-21	2019-20 (A\Cs)	2020-21 (RE)	2021-22 (BE)
I.	Revenue Receipts					% to total Revenue Receipts		
A.	State's Tax Revenue(i+ii+iii)	147778.68	137835.14	148475.04	7.72	84.23	86.30	86.19
(i)	Taxes on Income and Expenditure	1141.01	932.28	1027.00	10.16	0.65	0.58	0.60
(ii)	Taxes on Property & Capital Transactions of which	59094.12	56174.82	64519.98	14.86	33.68	35.17	37.45
	(a) Sales Tax / VAT	16424.32	15230.78	16791.00	10.24	9.65	9.54	9.75
	(b) Taxes on vehicles	6762.58	5525.31	7514.80	36.01	3.85	3.46	4.36
	(c) State Excise	21583.95	22700.00	24580.00	8.28	12.30	14.21	14.27

Table 4.7: Revenue and Capital Receipts, Karnataka 2019-20 to 2021-22 (Rs. Crore)								
Category of Receipts		**2019-20 (A\Cs)**	**2020-21 (RE)**	**2021-22 (BE)**	**% Variation 2021-22 over 2020-21**	**2019-20 (A\Cs)**	**2020-21 (RE)**	**2021-22 (BE)**
	(d) Taxes on Goods & Passengers	64.70				0.04	0.00	0.00
	(e) GST Compensation	14496.90	22840.20	12708.00	-44.36	8.26	14.30	7.38
	(f) Goods and Service Tax	42147.23	37834.43	45947.00	21.44	24.02	23.69	26.67
	(g) Others	14258.57	12718.73	15634.18	22.92	8.13	7.96	9.08
	State's Own Tax Revenue(i+ii)	116879.26	117781.73	124201.98	5.45	66.62	73.75	72.10
(iii)	Tax Devolution from Centre	30899.42	20053.41	24273.06	21.04	17.61	12.56	14.09
B.	Non-tax Revenues	7681.47	7729.59	8258.37	6.84	4.38	4.84	4.79
C.	Grants - in - aid from Central Government	19982.64	14144.33	15537.76	9.85	11.39	8.86	9.02
	Total I: Revenue Receipts (A+B+C)	175442.79	159709.06	172271.17	7.87	100	100	100
II.	Capital Receipts					% to total Capital Receipts		
(i)	Loans from Govt. of India	675.26	1332.24	2231.82	67.52	1.57	1.97	3.42
(ii)	Internal Debt (Excluding W & M&MB)	43473.26	61449.92	58599.95	-4.64	101.21	90.89	89.74
(iii)	Public A/c (Net)	-1443.77	4534.39	4338.70	-4.32	-3.36	6.71	6.64
(iv)	Recovery of Loans & Advances	202.43	261.52	90.84	-65.26	0.47	0.39	0.14
(v)	Contingency Fund (Net)	0.00	0.00	0.00	0.00	0.00	0.00	0.00
(vi)	Misc. Capital Receipts	45.07	28.00	40.00	42.86	0.10	0.04	0.06
	Total II: Capital Receipts (i) to (vi)	42952.25	67606.07	65301.31	-3.41	100	100	100
	AGGREGATE RECEIPTS: I+II	218395.04	227315.13	237572.48	4.51			
	CONSOLIDATED FUND OF RECEIPTS	226149.31	230380.81	243733.83	5.80			
	Total Tax Revenue as per cent of Aggregate Receipts	67.67	60.64	62.50				

A/C: Accounts, RE: Revised Estimates. BE: Budget Estimates, W & M = Ways & Means, MB =Market Borrowings
Source: Annual Financial Statement 2021-22; VolumeI of 2021-22 Budget Documents, Finance Department, GoK

4.4.3 Trends in Expenditures

With the pandemic prevailing for the last two years, the trends in major expenditure indicators are expected to have been volatile at all levels of governments. Similar to this, in Karnataka also, there are some volatility in the last two years. As may be noted in table 4.8, the Budget for 2021-22 has tried to revert back to pre-pandemic levels in terms of expenditures, as ratio to GSDP, such as developmental and capital expenditures. The developmental expenditure that has seen a dip to 8.4 per cent in 2020-21 has been budgeted to increase to 9.28 per cent. Similar trend is expected in other services such as social, economic and general services. However, the rise in interest payments from 1.09 per cent in 2019-20 to 1.6 per cent in 2021-22 is a cause for concern. With the increasing outstanding debt from to 18.8 per cent to 25.9 per cent in the same period only resulting further rise in the interest payment burden for the state. Similar trend is expected in the wage bill and pensions as well. This is expected to push-up the revenue expenditure to capital expenditure ratio, which could suggest the future vulnerability of the state fiscal position. One silver lining in all these expenditures is that state could ring-fence the capital expenditure pattern from the pandemic shock and continue to ensure at least 2 per cent every year. But to meet the FRA limits, there is a need to further enhance these expenditures to over 3 per cent in the medium term.

Table: 4.8: Expenditure Indicators in Karnataka (% of GSDP)

Particulars	2016-17 (A/Cs)	2017-18 (A/Cs)	2018-19 (A/Cs)	2019-20 (A/Cs)	2020-21 (RE)	2021-22 (BE)
Revenue Expenditure (RE)	11.81	10.75	11.67	10.26	9.94	11.01
Development Expenditure	11.10	10.28	10.97	9.29	8.40	9.28
Social Services	5.65	5.17	5.69	4.45	4.10	4.63
Economic Services	5.45	5.11	5.28	4.60	4.18	4.49
General Services	2.89	2.68	3.09	2.92	3.38	3.97
Interest Payments	1.08	1.05	1.10	1.09	1.25	1.60
Wage Bill	1.92	1.72	2.06	1.86	2.06	2.27
Pensions	1.01	0.88	1.07	1.08	1.23	1.38
Capital Expenditure (CE) (outside the revenue account)	2.52	2.31	2.46	2.09	2.06	2.43
Total Expenditure (RE+CE)	14.33	13.06	14.13	12.35	11.99	13.44
Outstanding Debt	18.89	17.58	19.20	18.80	21.08	25.90
Total Consolidated Fund	15.16	14.07	15.24	13.19	12.75	14.46

Source: Economic Survey 2020-21, Planning Department, GoK and Annual Financial Statement 2021-22, Volume1 of 2020-21 Budget Documents, Finance Department, GoK, Medium Term Fiscal Plan (2021-25), Finance Department, GoK.

4.4.3.1 Functional Categories of Expenditure

In terms of various types of expenditures by the government, they are divided into three functional categories namely General, Social and Economic and this forms the basis for allocating resources as per the broad objectives of the governments. The composition of the functional categories of expenditure (Table 4.8) reveal that the government focuses on social services covering the sectors such as education, health, housing, water supply etc. For the year 2021-22, Karnataka has budgeted to spend 4.63 per cent of its GSDP on social services while its spending proposal on economic and general services are 4.49 per cent and 3.97 per cent, respectively. The expenditure on social services has increased from Rs.63119.75 crore in 2016-17 to Rs.78736.66 crore in 2021-22 (BE). The expenditure on economic services has increased from Rs.60869.63 crore to Rs.76442.88 crore. Similarly, the general services have increased from Rs.32324.94 crore to Rs.67616.87 crore during the same reference period. However, as a percentage of GSDP, there seems to be decline in the expenditure on social services and economic services between 2016-17 and 2021-22 (BE) while the expenditure on general services has increased in the same period (from 2.89 per cent in 2016-17 to 3.97 per cent in 2021-22(BE)).

4.4.3.2 Expenditure Highlights: 2021-22

In this section, disaggregated information on development and non-development expenditures at the sectoral level is discussed and the same is presented in Table 4.9. The broad trends in development and non-development expenditures are shown in table.

Between 2020-21(RE) and 2021-22 (BE), the overall developmental expenditure as portion to total expenditure appears to have declined marginally from 68.11 per cent to 67.05 per cent. Since the pandemic, with the increased pressure on the health care services, the overall share of expenditure on social services within the development expenditure has increased from 48.55 per cent in 2019-20 to 50.94 per cent in 2021-22 (BE). And this has largely been due to increase in the share of medical expenditure from 8.73 per cent to 11.57 per cent during the same period. Overall, the social services expenditure is expected to increase by 7.49 % between 2020-21(RE) and 2021-22(BE). On the other hand, expenditure on economic services is expected to increase by 1.31 per cent for the same reference period. In terms of shares, within that, the share of agriculture and allied services and rural development appear to decline. However, Water & Power Development (20.25 per cent) followed by Agriculture & Allied (10.91 per cent) and Transport & Communication (8.06 per cent) continue to get larger share in the 2021-22 (BE).

As discussed earlier, increase in the share of non-development expenditure, which is expected to increase by 9.54 per cent between 2020-21(RE) and 2021-22(BE) could pose significant challenge for fiscal strength in the coming years. And this increase has largely been contributed by increase in the share of interest payments as well as wage and pension bills, which are only expected to increase due to larger debt situation in the medium term. The servicing of debt is expected to increase by 21.66 per cent in 2021-22(BE).

Table 4.9: Trends in Key Expenditure Components (Rs. crore)

	Category of Expenditure	2019-20 (A/C)	%*	2020-21(RE)	%*	2021-22(BE)	%*	Percent Variation (2021-22over 2020-21)
I	**Developmental Expenditure**							
A	**Economic Services of which**	**81196.63**	**51.45**	**76534.54**	**50.54**	**77539.42**	**49.06**	**1.31**
1	Agriculture & Allied Services	23257.69	14.74	18537.11	12.24	17247.31	10.91	-6.96

Table 4.9: Trends in Key Expenditure Components (Rs. crore)								
	Category of Expenditure	**2019-20 (A/C)**	**%***	**2020-21(RE)**	**%***	**2021-22(BE)**	**%***	**Percent Variation (2021-22over 2020-21)**
2	Rural Development	7276.64	4.61	9598.54	6.34	8916.15	5.64	-7.11
3	General Economic Services	4425.56	2.80	3343.97	2.21	3777.16	2.39	12.95
4	Water & Power Development	31068.63	19.69	29982.48	19.80	31995.53	20.25	6.71
5	Industry and Minerals	2412.58	1.53	2771.60	1.83	2713.56	1.72	-2.09
6	Transport and Communication	12463.58	7.90	12081.67	7.98	12735.63	8.06	5.41
7	Others	291.96	0.18	219.17	0.14	154.08	0.10	-29.70
B	**Social Services of which**	**76625.78**	**48.55**	**74889.90**	**49.46**	**80501.72**	**50.94**	**7.49**
8	Education, Sports, Art and Culture	27720.98	17.56	27632.88	18.25	29099.56	18.41	5.31
9	Medical & Public Health, Family Welfare, Water supply & Sanitation	13778.68	8.73	16541.52	10.92	18280.74	11.57	10.51
10	Social Security & Welfare Including SC & ST Welfare	10030.77	6.36	7681.04	5.07	8761.90	5.54	14.07
11	Housing and Urban Development	7815.66	4.95	7837.71	5.18	9321.37	5.90	18.93
12	Information and Publicity	677.03	0.43	912.81	0.60	1111.74	0.70	21.79
13	Others	16602.66	10.52	14283.94	9.43	13926.41	8.81	-2.50
	Total Development Exp. (A+B)	**157822.41**	**100**	**151424.44**	**100**	**158041.14**	**100**	**4.37**
II	**Non-Developmental Expenditure**							
(a)	**Revenue Expenditure under General services**	**48823.84**	**81.50**	**59962.41**	**84.57**	**66802.33**	**86.01**	**11.41**
(i)	Organs of the State	1843.66	3.08	1902.25	2.68	1928.01	2.48	1.35
(ii)	Fiscal Services	1572.38	2.62	1934.89	2.73	2065.98	2.66	6.77
(iii)	Interest payment & servicing of debts	18869.41	31.50	23968.81	33.81	29160.86	37.55	21.66
(iv)	Administrative Services	8011.29	13.37	9807.94	13.83	10099.92	13.00	2.98
(v)	Pension & Miscellaneous General Services	18527.10	30.93	22348.52	31.52	23547.56	30.32	5.37

	Table 4.9: Trends in Key Expenditure Components (Rs. crore)							
	Category of Expenditure	**2019-20 (A/C)**	**%***	**2020-21(RE)**	**%***	**2021-22(BE)**	**%***	**Percent Variation (2021-22over 2020-21)**
(b)	**Compensation & Assignment to Local Bodies and PRIs**	**6424.72**	**10.73**	**6003.07**	**8.47**	**5966.46**	**7.68**	**-0.61**
(c)	**Capital Expenditure**	**4654.86**	**7.77**	**4934.73**	**6.96**	**4896.93**	**6.31**	**-0.77**
(i)	General Services	778.92	1.30	909.75	1.28	814.54	1.05	-10.47
(ii)	Discharge of Internal Debt (Net)	2445.65	4.08	2510.64	3.54	2559.82	3.30	1.96
(iii)	Repayment of Loans to G.O.I.	1424.25	2.38	1494.56	2.11	1504.89	1.94	0.69
(iv)	Loans & Advances to Govt. Servants	6.04	0.01	19.78	0.03	17.68	0.02	-10.62
	Total non-development Expenditure	**59903.41**	**100**	**70900.21**	**100**	**77665.71**	**100**	**9.54**
	Aggregate Expenditure I + II	**217725.82**		**222324.65**		**235706.85**		**6.02**
	Developmental Exp as % of total Exp	72.49		68.11		67.05		
	Per Capita Development Expenditure (Rs)	22972.69		21725.17		22353.77		2.89
	III. Ways &Means &Market Borrowings	6310.49		7600.08		10500.07		38.16
	Consolidated Fund	**224036.31**		**229924.73**		**246206.92**		**7.08**

R.E: Revised Estimates, B.E.: Budget Estimates
Note: Per capita is based on the projected population of 2018, 2019 and 2020.
** Figures under developmental expenditure are percentages to the total developmental expenditure and figures under non-developmental expenditure are percentages to the total non-developmental expenditure*
Source: Annual Financial Statement 2021-22, Finance Department, GoK (ii) Volume I of Budget Documents 2021-22, Finance Department GoK.

4.4.3.3 Central Grants (Receipts)

Historically central grants have been major component of state budgets. The composition of these grants is broadly under three categories. (i) Grants for Centrally Sponsored Schemes (CSS) (ii) Finance Commission Grants for Rural Local Bodies/Urban Local Bodies/ State Disaster Response Fund. (iii) Other Transfers/Grants to State Legislatures (including Grants towards National Disaster Response Fund and Compensation for loss of revenue arising out of implementation of GST). With the increase in the states' share in the overall devolution from 32 per cent to 42 per cent since the 14th Finance Commission period, and with the restricting of Centrally Sponsored Schemes, there are generally a reduction in the transfer of central grants to the states. For the state of Karnataka, such grants are expected to decline from 19.65 per cent of total revenue receipts in 2019-20 to 16.4 per cent in 2021-22 (BE). Compositionally the decline is sharp in 'Other transfers' (see table 4.10)

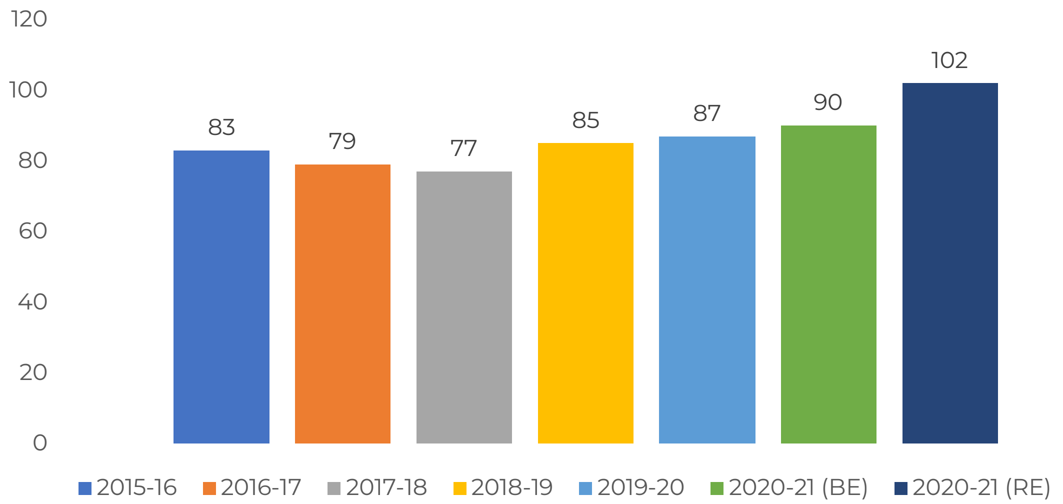
Table 4.10: Trends in Central Grants (Rs. crore)				
Sl. No.	Items	2019-20(A/Cs)	2020-21(RE)	2021-22 (BE)
1	Centrally Sponsored Schemes	12213.55 (6.96)	7910.99 (4.95)	9014.67 (5.23)
2	Finance Commission Grants	4672.91 (2.66)	5557.00 (3.48)	6522.00 (3.79)
3	Other Transfers/Grants to States with Legislatures	17593.08 (10.03)	23516.54 (14.72)	12709.09 (7.38)
4	Revenue Receipts	175442.79	159709.05	172271.17
	Total Central Receipts (1+2+3)	34479.54 (19.65)	36984.53 (23.16)	28245.76 (16.40)

The figures in bracket indicates % to total revenue receipts
Sources: Details of Estimates of Revenue and Other Receipts 2021-22, Finance Department, GoK.

4.4.3.4 Committed Expenditure

Large part of government expenditure is expected to follow an autoregressive process with near trend growth increase every year. This is largely due to increased share of committed expenditures in total expenditure. One important indicator to understand the availability of fiscal space for reviving the growth is understand the share of committed expenditures in the uncommitted receipts. This is shown in Figure 4.7 for the case of Karnataka. As the committed expenditures include salaries, pensions, interest, subsidies, administrative expenditure, devolution to PRIs and ULBs, etc., increase in this share is expected to squeeze resource for development purpose. At present, in the case of Karnataka, committed expenditure constitute over 102 per cent of total uncommitted revenue receipts, which is total revenue receipts net of tied grants from Central Government, for the year 2020-21(RE). Reducing this share is utmost important for achieving the FRA targets as well as reducing the outstanding liabilities of the state, which is increasing at a faster pace.

Figure4.7 Committed Expenditure as % of Uncommitted Revenue Receipts



Source: Economic Survey 2020-21, Planning Department, GoK, (ii) Medium Term Fiscal Plan (2021-25), Finance Department, GoK.

4.4.3.5 Economic Classification of Expenditure

To understand the overall economic impact of the Budget proposals the government expenditures are classified various economic categories, and this is in addition to the functional classification. This classification broadly looks at consumption and capital expenditures by dividing the total expenditures into three broad sub-headings: final outlays, transfer payments, and financial investments and loans. For the state of Karnataka, the trends in these three categories are presented in table 4.11 for the last three years. Such classification is especially useful while relating the fiscal policy framework to the medium-term macro-growth targets as set by respective governments.

As shown in Table 4.11, the state has tried to contain the temptation to open up expenditures during the pandemic. The growth of government consumption expenditure in 2020-21 is 5.35 per cent, which is less than the growth in the government capital formation. Despite the pandemic the state appears to have continued its focus on capital expenditures to revive the economy, while providing more resources to medical and health care as seen in earlier tables. In 2021-22(BE), the state appears to target even larger capital formation and that augurs well for the durable recovery of the state economy while there appears to be a temporary shift in the composition. In terms of shares, consumption expenditure is about 22.47 per cent of the total expenditure during the current year. As discussed earlier, the share of transfer payments that largely consists of interest payments and subsidies is expected to be as high as 54.73 per cent in the current year. Another concerning fact here is the government's financial investments and loans, which is expected to decline by 31. 87 per cent in 2021-22(BE).

Table 4.11: Economic Classification of Expenditure of Karnataka State Budget-2020-21 (Rs. Crore)

Sl. No.	Description	2019-20 (A/C)	2020-21 (RE)	Percentage Variation (2020-21 over 2019-20)	2021-22 (BE)	Percentage Variation (2021-22 over 2020-21)
1	Final Outlays	76683.57	80996.40	5.62	90518.74	11.76
(a)	Government consumption Expenditure	45646.25	48086.58	5.35	51079.61	6.22
(b)	Gross Capital Formation	31064.74	32915.90	5.96	39445.08	19.84
(c)	Acquisition of Fixed Assets	-27.38	-6.08	-77.79	-5.95	-2.14
2	Transfer Payments to the Rest of the Economy	116493.96	120117.20	3.13	124409.53	3.57
(a)	Current Transfers *	114734.82	118668.25	3.43	123000.97	3.65
(b)	Capital Transfers	1759.14	1448.95	-17.63	1408.56	-2.79

Table 4.11: Economic Classification of Expenditure of Karnataka State Budget-2020-21 (Rs. Crore)						
Sl. No.	**Description**	**2019-20 (A/C)**	**2020-21 (RE)**	**Percentage Variation (2020-21 over 2019-20)**	**2021-22 (BE)**	**Percentage Variation (2021-22 over 2020-21)**
3	Financial Investments and Loans to the rest of the Economy	14994.31	18205.60	21.42	12403.93	-31.87
	Total Expenditure (1+2+3)	208171.84	219319.20	5.35	227332.20	3.65

** Includes interest and subsidy also R.E.: Revised Estimates, B.E.: Budget Estimates*
Source: An Economic-cum-Purpose Classification of the Karnataka Government Budget 2021-22, Directorate of Economics and Statistics, GoK

4.4.4 Review of trends in Receipts and Expenditure during April-November 2021.

This section analyses the fiscal situation of the state from April to November of the current financial year. The summary of state's financial performance for the first eight months of 2021-22 are compared with Budget Estimates of 2021- 22 and with the corresponding period in the previous year (2020-21) which is summarized in table 4.12. Further, various components of own tax revenue have been compared and the same is presented in table 4.13.

The second wave of covid-19, which started in mid-March and reached its peak in the first week of May, has adversely affected the economic activities and revenue collection in the beginning of the financial year 2021-22. However, the economic activities started picking up from July 2021 and it gradually stabilized only from August 2021. This is evident in the revenue collection during April-November 2021.

The total revenue receipts of the state during the first eight months of financial year 2021 - 22 from April to November 2021 is Rs 114403 crore. The state achieved 66.41 per cent of its revenue receipts targets for 2021-22 within first eight months whereas the revenue receipts collection during the corresponding period of 2020-21 was lower at 50.54 per cent, thus suggesting a significant improvement in the revenue collections. The revenue receipts include the states own tax revenue of Rs 74809, State's own non-tax revenue of Rs. 6755 crores, the devolution from Government of India of Rs 14689 crore and grants in aid from Government of India of Rs 18150 crore. Component wise, the government collected 67.10 per cent of own tax revenue during April-November 2021 of the budget estimates of 2021-22 which is only 50.44 per cent for the same period during 2020-21. Further, the collection of non-tax revenue reached 81.79 per cent of the budget estimates in the first eight months of the financial year. This is a growth of 71.23 per cent over the previous year. The devolution from Government of India rose by 20.48 per cent during April-November 2021 compared to the corresponding period of 2020. Recently (on 20th January 2022), the Government of India has also shared the advanced installment of tax devolution with the state to the tune of Rs 3,467.62 crore to tide over the planned expenditure of the state. The own tax revenue as well as own non-tax revenues during April - November 2021 had increased compared to the corresponding period of 2020 which shows that the economy is on the recovery path. And this seems to follow the recovery path at all India level.

State's own tax revenue includes, among others, the four major state taxes viz. commercial taxes, excise, motor vehicle taxes and Taxes on stamps and registration. The large proportion of the own tax revenue is coming from Commercial tax collections. Out of the total own tax revenue of Rs.74809 collected during April – November 2021, Rs.45197 is from the commercial taxes. The revenue collection from commercial taxes in first eight months of 2021-22 reached 70.88 per cent of budget estimates which is an increase of 35.71 per cent over the achievement made during the corresponding period in 2020-21. State excise collections for first eight months of 2021-22 is Rs.16836 crore which is 68.50% of the budgeted estimate for the financial year 2021 - 22. This period shows an improvement in state excise collections compared to the corresponding period of 2020. During April – November 2021, the state collected 62.41% excise duty of the budget estimates. Taxes from motor vehicles during April-November 2021 is Rs.4050 crores, which is 53.89% of the budgeted estimates for 2021-22. A rise of 32.75 per cent is seen in collections on motor vehicle compared to the corresponding period of 2020-21. The revenue collected under the stamps and registration is Rs 8372 crore in the first eight months of 2021-22, which is 66.16 per cent of the budget estimates and an improvement of 48.31 per cent over the achievement made during the corresponding period in 2020-21.

On the expenditure front, both the share of revenue and capital expenditure spent during first eight months of 2021-22 with respect to the budget estimates is higher than the corresponding expenditure happened during first eight months of 2020-21. This suggests the smooth fund flow to the needy sectors of the economy. The revenue expenditure was spent by 55.70 per cent of the budget estimates during April-November 2021 whereas the revenue expenditure during the corresponding period of 2020 was 49.93 per cent. Similarly, April-November 2021 witnessed 43.95 per cent of capital expenditure estimated for 2021-22 which is an increase of 10.46 per cent over the spending made during the corresponding period in 2020-21.

Table 4.12: Receipts and Expenditure during April-November 2021.(Rs. Crore)

Sl. No	Item	2021-22 BE	April to November 2021-22	% Achievement to BE 2021-22	% During Apr-Nov to BE 2020-21	Increase over previous year
I	Revenue Receipts	172271	114403	66.41	50.54	25.82
(i)	Own Tax Revenues*	111494	74809	67.10	50.44	32.43
(ii)	Own Non-tax Revenues	8258	6755	81.79	50.79	71.23
(iii)	Devolution from Centre	24273	14689	60.52	42.64	20.48
(iv)	GIA and Contributions	28246	18150	64.26	57.96	-0.81

Table 4.12: Receipts and Expenditure during April-November 2021.(Rs. Crore)						
Sl. No	Item	2021-22 BE	April to November 2021-22	% Achievement to BE 2021-22	% During Apr-Nov to BE 2020-21	Increase over previous year
II	Capital Receipts (Non-debt)	131	30	23.14	16.95	-39.78
(i)	Recovery of Loans and Advances	91	35	38.63	11.11	23.06
(ii)	Other Non-debt Capital Receipts	40	-5	-12.03	54.42	-122.10
III	Total Receipts (I+II)	172402	114433	66.38	50.48	25.78
	Public Debt	71332	29426	41.25	94.25	-41.00
	Total Receipts including Public Debt	243734	143859	59.02	60.42	2.14
IV	Revenue Expenditure	187405	104381	55.70	49.93	16.29
(i)	Interest Payments out of 4	27161	14574	53.66	54.52	20.32
V	Capital Expenditure	44237	19444	43.95	37.84	10.46
(i)	Loans and Advances disbursed out of 5	2879	1560	54.19	40.41	11.84
VI	Total Expenditure (IV+V)	231642	123825	53.46	47.44	15.34
	Public Debt	14565	3521	24.18	57.06	-46.83
	Transfer to Contingency Fund		420			
	Total Expenditure including Public Debt	246207	127766	51.89	47.91	12.09

*Own tax revenue is inclusive of GST compensation
Source: Finance Department, GoK

Overall, 53.46 per cent of the total expenditure estimated for 2021-22 was spent during April-November 2021. This is an improvement of 15.34 per cent over the total expenditure made during the corresponding period in 2020-21. This seems to have been largely supported by better revenue mobilization. The total receipts during April-November 2021 were 66.38 per cent of the budget estimates which is an increase of 25.78 per cent over the corresponding period in 2020-21. Therefore, the experience of the state in the revenue collection and expenditure happened during the first eight months of 2021-22 indicates that the fiscal management of the state is satisfactory during 2021-22.

Table 4.13: State's Own Tax Revenue during April-November 2021 (Rs. Crore)						
Particulars	**2021-22 BE**	**April - Nov 2021**	**% to BE 2021-22**	**April - Nov 2020**	**% To BE 2020-21**	**Growth over previous year**
Commercial Taxes*	63765	45197	70.88	33303	50.21	35.71
State Excise	24580	16836	68.50	14167	62.41	18.84
MV Taxes	7515	4050	53.89	3050	42.87	32.75
Stamp and Reg Fees	12655	8372	66.16	5645	44.61	48.31
Others	2979	355	11.90	324	10.16	9.30
Total (Own Tax Revenues)	111494	74809	67.10	56490	50.44	32.43
Source: Finance Department, GoK						

4.5 CAPITAL FORMATION BY GOVERNMENT

As expected, the growth rate of value of assets created in 2020-21 was only 5.96 per cent that is lower than the trend growth in the state. However, in the 2021-22, this is expected to see sharp recovery by 19.84 per cent. Large part of the assets creation appear to be undertaken by the government with the department commercial undertakings investing just about one-tenth of the total gross capital formation (see table 4.14). But in terms of growth, departmental commercial undertakings appear to register a very high growth of 44.8 per cent in 2020-21 and expected to increase by 66.79 per cent in the current year.

Table 4.14: Capital Formation by the Government of Karnataka 2021-22 (Rs. Crore)						
Sl. No.	**Description**	**2019-20 (A/C)**	**2020-21 (RE)**	**Percent Variation (2020-21 over 2019-20)**	**2021-22 (BE)**	**Percent Variation (2021-22 over 2020-21)**
1	Value of Assets Created	31065	32915.90	5.96	39445.08	19.84
(a)	By Departmental Commercial Undertakings	3428.69	4964.75	44.80	8280.94	66.79
(b)	By Government Administration	27636.02	27951.15	1.14	31164.14	11.50
2	Change in Stock in (a)&(b) above	-0.01				
	Total: Gross Capital Formation	31065	32916	5.96	39445	19.84
Source: Economic cum purpose classification of Karnataka Government Budget 2021-22, Directorate of Economics & Statistics, Government of Karnataka						

a) Resources of the Budget (2019-20 to 2021-22): It may be noted in table 4.15 that the size of the state's Budget has been growing continuously albeit at a slower pace than the state's nominal GSDP growth. For the year 2021-22, while the Budget assumes a nominal

GSDP growth of 14.4 per cent, the increase in the size of the Budget is about 7.08 per cent. In levels, the Budget size in the current year is about Rs 2.46 lakh crore. In terms of resources for the Budget, as shown in table 4.15, large part (about two-thirds) is covered by the state's own resources. The state's own resources cover about 64.72 per cent of the total budget size. But it has to be highlighted here that the share of central assistance appears to decline. It has declined from 8.92 per cent in 2019-20 to 6.15 per cent in 2020-21(RE) and 6.31 per cent in 2021-22 (BE). In terms of growth rate, increase in the growth of central assistance to 9.85 per cent in 2021-22 could be interpreted by looking at the -29.2 per cent growth in 2020-21.

Table No. 4.15: Financial Resources of the Budget: 2019-20 to 2021-22 (Rs. Crore)

Items	2019-20 (A/Cs)	2020-21 (RE)	2021-22 (BE)	% Change in 2020-21(RE) over 2019-20	% Change in 2021-22(BE) over 2020-21(RE)
State Own Resources	153594.29 (68.56)	145397.49 (63.24)	159337.10 (64.72)	-5.34	9.59
State Borrowings	50459.02 (22.52)	70382.24 (30.61)	71331.82 (28.97)	39.5	1.35
Central Assistance*	19983.00 (8.92)	14145.00 (6.15)	15538.00 (6.31)	-29.2	9.85
Total	224036.31 (100.00)	229924.73 (100.00)	246206.92 (100.00)	2.6	7.08

Source: Budget Documents 2021-22, Finance Department, GoK.
Note: Figures in bracket indicate % to total
** Includes grants under CSS and Finance Commission Grants only.*

Table 4.16: Scheme of Financing of the Budget:2019-20 to 2021-22 (Rs. Crore)

Sl.No	Sectors	2019-20(A/Cs)	2020-21 (RE)	2021-22 (BE)
A.	**State Own Resources**			
1	Own Tax Revenue	116860.00	117782.00	124202.00
2	Non-Tax Revenue	7681.00	7730.00	8258.00
3	Devolution from Centre	30919.00	20053.00	24273.00
4	Non-plan Grants			
5	Miscellaneous Capital Receipts	45.07	28.00	40.00
6	Amount spent in excess of Consolidated Fund of Receipts	-2113.01	-456.08	2473.09
7	Loans & Advances	202.43	261.52	90.84
8	Rounding off errors while converting lakhs to crores	-0.20	-0.95	0.17
	Total State Own Resources (1 to 8)	**153594.29**	**145397.49**	**159337.10**

Source: Budget Documents 2020-21 Finance Department, GoK
** Includes grants under CSS and Finance Commission Grants only*

Table 4.16: Scheme of Financing of the Budget:2019-20 to 2021-22 (Rs. Crore)				
Sl.No	**Sectors**	**2019-20(A/Cs)**	**2020-21 (RE)**	**2021-22 (BE)**
B	Borrowings			
8	Market Borrowings	48499.38	67250.00	67100.00
9	Negotiated Loans	1284.38	1800.00	2000.00
10	Loans for EAPs	675.26	1332.24	2231.82
	Total Borrowings (8 to 10)	**50459.02**	**70382.24**	**71331.82**
C	**Central Grants***	**19983.00**	**14145.00**	**15538.00**
	Total Budget(A+B+C)	**224036.31**	**229924.73**	**246206.92**

Source: Budget Documents 2020-21 Finance Department, GoK
** Includes grants under CSS and Finance Commission Grants only*

In terms of financing the budget, as shown in table 4.16, with the sharp decline state's own resources between 2019-20 and 2020-21 (from 1.53 lakh crore to 1.45 lakh crore), the state had to increase its market borrowing from Rs 48499 crore to Rs 67250 crore in the same period and it budgets to borrow Rs 67100 crore in the current year. With marginal increase in central grants and with expected increase in own revenues, over and above the budgeted, the overall borrowings of the state in 2021-22 could be less than the budgeted level of Rs 71331 crores.

b) Inter-sectoral Outlays of the Budget (2019-20 to 2021-22): The expenditure proposals of the state could depend on the need as well as growth and development priorities. For the year 2021-22, as there is recovery in the economic activities, Karnataka has reprioritized the economic sectors that could help reviving the growth as well as employment opportunities in the state. Some of the crucial sectors that the state has focused in this year's Budget are Irrigation, water supply, urban development, welfare of SCs, STs, OBCs, and Minorities, Labour & Labour Welfare, among other crucial sectors (see table 4.17). All these expenditures should help in uplift the growth potential of the state as well as support the state's efforts in achieving the development goals as prioritized under Sustainable Development Goals (SDGs).

Table 4.17: Developmental Outlays by Major Sectors (Rs. crore)					
Sl. No.	**State Budget**	**2019-20 (A/C)**	**2020-21 (RE)**	**2021-2022 (BE)**	**% change in 2021-22 over 2020-21**
I	**Economic Services**				
1	Agriculture & Allied Activities (Including Co-operation)	23244.68	18494.04	17237.31	-6.80
2	Rural Development	7276.64	9598.54	8916.15	-7.11
3	Special Area Programme	226.42	159.61	118.56	-25.72
4	Irrigation and Flood Control	16304.23	17722.43	19566.75	10.41
5	Energy	12264.40	12260.06	12378.78	0.97

Table 4.17: Developmental Outlays by Major Sectors (Rs. crore)					
Sl. No.	**State Budget**	**2019-20 (A/C)**	**2020-21 (RE)**	**2021-2022 (BE)**	**% change in 2021-22 over 2020-21**
6	Industry and Minerals	1923.70	1746.14	1677.01	-3.96
7	Transport	12463.58	12081.67	12735.64	5.41
8	Science, Technology & Environment	65.54	59.56	35.52	-40.36
9	General Economic Services	4425.56	3343.98	3777.16	12.95
Total - I: Economic Services		**78194.75**	**75466.03**	**76442.88**	**1.29**
II.	**Social Services**				
10	Education, Sports, Art & Culture	27720.98	27632.87	29099.55	5.31
11	Health	9160.50	11947.49	12235.42	2.41
12	Water Supply, Housing and Urban Development				
12a	(a) Water Supply	3992.24	4026.29	4867.82	20.90
12b	(b) Housing	3447.36	3102.29	3086.05	-0.52
12c	(c) Urban Development	3938.08	4438.20	5650.77	27.32
13	Information and Publicity	152.01	179.12	227.75	27.15
14	Welfare of SCs, STs, OBCs & Minorities	9950.70	7482.47	8686.15	16.09
15	Labour & Labour Welfare	525.02	733.69	883.99	20.49
16	Social Security& welfare (incl. Nutrition)	11916.62	12377.38	12526.43	1. 20
17	Relief on Account of Natural Calamities	4485.95	1772.25	1124.97	-36.52
18	Other Social Services	228.41	253.33	294.02	16.06
19	Secretariat Social Services	46.76	54.56	53.74	-1.50
	Total - II: Social Services	**75564.63**	**73999.94**	**78736.66**	**6.40**
III.	**General Services**	**49602.76**	**60872.16**	**67616.87**	**11.08**
IV	**Grant-in-aid and Contribution**	**6424.72**	**6003.07**	**5966.46**	**-0.61**
V	**Public Debt**	**10180.39**	**11605.28**	**14564.78**	**25.50**
VI	**Loans and Advances**	**4069.08**	**1978.27**	**2879.25**	**45.54**
	Total: State Budget	**224036.33**	**229924.75**	**246206.90**	**7.08**

Source: Annual Financial Statement 2021-22, Finance Department, GoK

4.6 SCHEMES IN 2021-22 BUDGET

The state from time to time, has introduced various schemes to address the needs of the regions, sectors, sections, etc., from time to time. However, as most of the schemes lack sunset clauses, they are expected to continue to exist even after achieving the scheme's objectives, thus putting continuous pressure on the state fiscal conditions. This could also have potential to limit the state's capacity to address some of the emerging challenges that may need substantial resources. It may be noted in table 4.18, there are about 1830 schemes at present. Within that over 50 per cent of schemes are will less than 10 crore allocations. To improve the public delivery mechanism and to ensure resources for other pressing needs of the state, there is an urgent need to rationalize the schemes and bring down the number of schemes substantial. The same has also been recommended by Expenditure Reforms Commission of the state and also the successive Central Finance Commissions. The State Finance Commission, as and when it is formed, may relook at these schemes. The state could also look at the recommendations made by the Expenditure Management Committee (Chaired by Bimal Jalan) and appropriately rationalize the expenditures.

Table4.18: Budget Allocation 2021-22(BE)

Sl No.	Range	No. of Schemes	% to total No. of Schemes	Fund Allocation	% to Fund Allocation
1	Upto one Crore	356	19.45	144.02	0.07
2	Upto to 10 Crore	600	32.79	2712.63	1.30
3	Upto 100 Core	602	32.90	22345.97	10.71
4	More than 100 Crore	272	14.86	183463.77	87.92
	Total*	1830	100.00	208666.39	100.00

*Excluding debt servicing and add recoveries
Source: Budget Documents 2021-22, Finance Department, GoK.

4.7 DISTRICT SECTOR OUTLAYS FOR THE YEAR 2021-22

Karnataka has been in the forefront in the country in terms of District level planning. As district being a major implementing agency with respect to execution of social sector programs, ensuring adequate resources and tracking those resources becomes utmost important for the state as well as for the nation as a whole. The Government of India's Aspirational District scheme is one such initiative to ensure better implementation of both central and state sector schemes. In this section, a summary of the allocations made to the districts in Karnataka for the last three years are presented Within the district there are three levels of schemes: ZP schemes, TP Schemes and GP schemes. More than half of the total district outlay is allocated to TP schemes. In 2021-22(BE), nearly 57 per cent of total district outlay is allocated to TP schemes (Rs 23482 crores out of total of Rs 41310 crore). The GP schemes consists of about 12 per cent while the rest is allocated towards ZP schemes (see table 4.19). District wise information on the plan outlay for 2021-22(BE) is presented in Table 4.19.

Table 4.19: District Outlay for the year 2021-22(B.E) (Rs. Crore)								
District	**Z.P Schemes**	**%**	**TP Schemes**	**%**	**GP Schemes**	**%**	**Total**	**%**
Bangalore Urban	580.35	4.54	939.03	4.00	0.15	0.00	1519.52	3.68
Bangalore Rural	164.88	1.29	405.31	1.73	0.05	0.00	570.23	1.38
Bagalkote	370.22	2.90	857.22	3.65	0.10	0.00	1227.55	2.97
Belgaum	852.15	6.66	1803.76	7.68	0.76	0.02	2656.66	6.43
Bellary	427.63	3.34	1021.24	4.35	0.35	0.01	1449.22	3.51
Bidar	351.42	2.75	806.65	3.44	0.54	0.01	1158.61	2.80
Bijapur	470.26	3.68	1061.71	4.52	1.31	0.03	1533.28	3.71
Chamarajanagar	181.91	1.42	379.55	1.62	0.54	0.01	562.00	1.36
Chikkaballapur	191.01	1.49	533.54	2.27	0.24	0.00	724.79	1.75
Chickmagalore	276.80	2.16	554.21	2.36	0.48	0.01	831.49	2.01
Chitradurga	393.75	3.08	769.98	3.28	0.36	0.01	1164.09	2.82
Dakshina Kannada	310.80	2.43	574.46	2.45	0.19	0.00	885.45	2.14
Davangere	357.16	2.79	716.87	3.05	0.35	0.01	1074.39	2.60
Dharwad	329.91	2.58	615.69	2.62	0.13	0.00	945.73	2.29
Gadag	255.69	2.00	457.62	1.95	0.24	0.00	713.55	1.73
Gulbarga	472.67	3.70	1113.00	4.74	0.88	0.02	1586.55	3.84
Hassan	386.77	3.02	815.46	3.47	1.00	0.02	1203.23	2.91
Haveri	325.96	2.55	709.20	3.02	0.61	0.01	1035.78	2.51
Kodagu	144.16	1.13	193.10	0.82	0.56	0.01	337.83	0.82
Kolar	230.93	1.81	630.12	2.68	0.20	0.00	861.25	2.08
Koppal	244.65	1.91	625.28	2.66	0.30	0.01	870.23	2.11
Mandya	315.72	2.47	673.86	2.87	1.14	0.02	990.72	2.40
Mysore	451.54	3.53	953.13	4.06	1.25	0.02	1405.92	3.40
Raichur	307.58	2.41	818.01	3.48	0.64	0.01	1126.23	2.73
Ramanagar	190.13	1.49	431.35	1.84	0.38	0.01	621.86	1.51
Shimoga	365.35	2.86	796.68	3.39	0.54	0.01	1162.57	2.81
Tumkur	530.15	4.15	1180.64	5.03	1.10	0.02	1711.88	4.14
Udupi	197.61	1.55	365.07	1.55	0.47	0.01	563.16	1.36
Uttar Kannada	324.27	2.54	734.31	3.13	0.66	0.00	1059.24	2.56
Yadgir	195.10	1.53	483.45	2.06	0.52	0.01	679.06	1.64
Lump sum – ZP	2589.32	20.25	1463.33	6.23	5025.76	99.68	9078.40	21.98
Grand Total	12785.82	100	23482.83	100	5041.80	99.99	41310.45	100

Source: Budget Documents of Zilla Panchayaths, 2021-22, Finance Department, GoK

4.8 FISCAL CHALLENGES OF THE STATE AND WAY FORWARD

Covid-19 has exerted tremendous pressure on the fiscal conditions of every tier of the governments. While at all India level, the pandemic pushed the economy to tailspin and led to loss of GDP worth of almost of two full years, it has also put huge pressure on fiscal health both from the revenue shortfalls as well as through tremendous rise in demand for government expenditure. As the governments are forced to introduce fiscal stimulus packages, the fiscal balances of the governments were only widened. With dwindling revenues, the fiscal situation has only deteriorated further. At the general government (both Centre and States), the fiscal deficit for the Covid year, 2020-21, is expected to be as high as 14 per cent. And even for the current year, it is expected to be in double-digit.

Similar to all India trends, the fiscal situation even in the state of Karnataka has also come under pressure. However, with some prudent fiscal management, the state could ensure that the fiscal deficit has not crossed 3.5 per cent of GSDP. However, following the trends in outstanding liabilities (which is expected to increase to 27 per cent by 2024-25), it appears that the medium-term fiscal risk is for real. And this could put pressure on the quality of expenditures in the state in the coming years.

In addition to this, there are other challenges that the state is expected to address in the coming years. They are as follows.

Ensuring quality of expenditure: As seen in the Medium-Term Fiscal Plan – 2021-22, it is very clear that the state that had experienced surplus on revenue account, has started running revenue deficit of over 1 per cent and this is expected to continue in the medium term. While this is against the FRA, the state needs to undertake hard decision with regard to rationalisation of some of the revenue expenditures. This could have implications on the outstanding liabilities in the medium term. Further, as RBI Monetary Policy Report in April 2019 suggest, the size of states' revenue expenditure multiplier is 0.82 compared to its capital expenditure multiplier of 2, it would be prudent for the state to adopt the expenditure switching mechanism to improve the potential GSDP of the state.

Improving efficiency of public expenditures: With the had budget constraints, one way to address this issue is to ensure maximum outcomes of the public expenditures. For this, the state needs to focus on the enhancing public expenditure efficiency. As pointed by Mohanty & Bhanumurthy (2020) , there is a large scope for the state of Karnataka to improve both input as well as output efficiency especially in the social sector. For this, there is a need to adopt input-output-outcome framework, at the district level, and correspond with the district level governance that could ensure better public delivery mechanism. The same framework may also be adopted to understand the outcomes of the public sector. This framework could improve efficiency of public expenditures both in social and economic sectors.

Ensuring flow of resources for SDGs: The rough estimates made by the Planning Department suggest that the state may need Rs 10 lakh crore to address the SDGs in the state. With the current budget size of about Rs 2.5 lakh crore, it could be understandble the extent the SDG needs are going to put pressure on the government finances. It is very opt time to think about sources of SDG financing, its impact on the fiscal conditions, as well as its impact on the other macroeconomic conditions. In a way, the time is very conducive to work on SDG-consistent macro frameworks that takes a little longish perspective up to 2030. Without such exercise, the realization of such humongous target could be very limited.

Rationalization of various schemes: As discussed earlier, Karnataka currently has over 1830 schemes. While allocating resources could be one issue, management of such a large number of schemes could limit the administration capabilities and reduce the efficiency of those expenditures sharply. Though states have not focused on this, the Centre, through NITI Aayog, has undertaken such exercise in bringing down the Centrally Sponsored Schemes substantially. As was done by the NITI Aayog, rationalization of these schemes and bringing down to manageable level (or grouping as core and optional) may be an utmost priority.

Ways to improve revenue sources: With the decline in the share of state in the central government devolution plan and with GST in place, the pressure on state's own tax revenue has increased manifolds. Further, with the uncertainty regarding extension of GST compensation after June 2022 and with decline in the grants-in-aid, the state is in dire need to look for alternative sources of revenues. One way that the state could do is to improve the tax administration through use of IT services to improve the buoyancy. Preliminary estimates suggest that the indirect tax revenue buoyancy is nearly stagnant at 0.8 and this suggest a larger scope for revenue mobilization. In the non-tax revenues, similar to Government of India, the state may also need look at asset monetization of some of the public sector entities under the state government. Here, while the government already initiated monetization of public land by the Karnataka Public Land Corporation Limited, this proposal seems to be waiting for the broader asset monetization plan for the state. Another way to mobilise cheaper funds is to finance fiscal deficit through bonds. The Centre in its recent Budget has proposed to float rupee-denominated sovereign green bonds, though it is not clear if states are also allowed to float similar bonds. While there are issues in floating sovereign bonds and have been resisted for a long time, now that Centre has gone ahead, there is a need for states also benefiting from such viable options to fund debt and deficits. If not the government, public sector may explore the option of floating green bonds. Given that Karnataka has been in the forefront in formulation green projects within the public sector.

Rationalization of subsidies: As estimated by Mundle & Sikdar (2020), the total subsidies (both merit and non-merit) in Karnataka is as huge as 8.5 per cent of GSDP in 2015-16, for which the last estimates are available. This is higher than all India numbers. While one may estimate this for the latest period, it is clear that subsidies in Karnataka is higher than any comparable states and within that non-merit component (especially in sectors like power, transport, education, etc) appear to be larger. Quick rationalization of non-merit subsidies is one clear way for freeing more resources for addressing growth and development objectives.

Apart from the above issues, there are few issues (such as rationalization of subsidies and schemes) that are highlighted in the past and has been addressed by the Fiscal Management Review Committee. The Committee has made very important recommendations in order to achieve the medium-term target of bringing the outstanding liabilities to sustainable level. Those may be re-looked and re-assessed.