NATIONAL ELECTION WATCH

ADR Association for Democratic Reforms

ADR/NEW State Budget Analysis for Karnataka

By

Association for Democratic Reforms (ADR), and
Karnataka Election Watch (KEW)

August, 2012

Abstract/Introduction

The overall financial performance of Karnataka is given in the enclosed document. It also compares the performance with other states where assembly elections were recently held, namely, Goa, Manipur, Punjab, Uttar Pradesh and Uttarakhand. The data presented is from publicly available sources including the CAG, RBI and other official sources.

TABLE OF CONTENTS

I. HIGHLIGHTS

Following are the highlights of the comparison of Karnataka with the 5 states which recently went into Assembly Elections. The comparison has been done for the years 2009-2010. These States were Goa, Punjab, UP, Uttarakhand and Manipur

- The fiscal deficit of Karnataka is the second lowest in comparison to the fiscal deficit of the other 5 states at 3.6%.
- While Goa had the highest per capita income of Rs. 1,54,433 among all the states compared, Uttar Pradesh had the lowest per capita income of Rs. 24,617. Karnataka had the third highest per capita income with Rs 48,824 per annum.
- Among the 6 states analysed, Goa is the least dependant on central funding to the extent of 15% while Karnataka is dependent to an extent of 31%
- Karnataka and Goa have the lowest committed expenditure (salaries, interest payments etc.) as a percentage of revenue expenditure at 48%. Punjab and Uttarakhand have the highest committed expenditure at 71%.
- Punjab was the only state which exceeded the 15% limit of interest payments. The interest payments for Punjab comprised of 23% of the revenue receipts. The interest payments for Karnataka stood at 11%

II. KARNATAKA STATE BUDGET ANALYSIS FROM 2005-2010.

Introduction

Karnataka is the eighth largest state in terms of geographical area and accounts for around 5% of India's population. Karnataka is largely a rural state with 61% of the population in the rural areas. As per the data revealed by the 2011 census, the population of Karnataka stands at 6.11 crore, an increase from figure of 5.29 Crore in the 2001 census. The literacy rate of the state is at 75%.

Key targets set by the 12th Finance Commission

Table 1 summarizes the performance of the Karnataka state government as against the indicators laid out by the 12th Finance Commission (FC).

The points to be noted are as follows:

- The revenue deficit during 2009-10 was at 0.54% of the GSDP.
- The fiscal deficit in 2009-2010 was 3.6% of the GSDP, higher than the FC's limit of 3%.
- Karnataka's committed expenditure on salaries and wages from 2005-2010, remained below the FC's stipulated limit of 35%.
- The interest payments too were below the laid target of 15%.

Table 1: Key targets set by the 12th Finance Commission

All figures in percentages	**Target as per the 12th finance commission report**	**Actuals**				
		2005-06	**2006-07**	**2007-08**	**2008-09**	**2009-10**
Revenue Deficit as a % of GSDP	The revenue deficit relative to GDP for the centre and the States, for their combined as well as individual accounts should be **brought down to zero** by 2008-09	1.26%	2.02%	1.57%	**0.60%**	**0.54%**
Fiscal Deficit in % of GSDP	The fiscal deficit to GDP ratio targets for the centre and the States may be fixed at **3 per cent of GDP** each.	-2.01%	-2.28%	-2.22%	**-3.23%**	**-3.64%**
Salaries and wages as a % of revenue expenditure	States should follow recruitment and wage policy, in a manner such that the total salary bill relative to revenue expenditure net of interest payments and pensions does not exceed **35 per cen**t.	21%	19%	22%	24%	22%
Interest Payments as a % of revenue receipts	In the case of States, the level of interest payments relative to revenue receipts should fall to about **15 per cent** by 2009-10	12%	11%	11%	10%	11%

Source: CAG Audit report

Key Financial Indicators

Table 2 summarizes the main financial indicators for the Karnataka State Budget from 2005-2010. The points to be noted are as follows:

- Fiscal deficit as a percentage of GSDP was at 2% from 2005-2008 but increased to 3.6% in 2009-2010.
- The revenue deficit could not attain the target of 0% by 2008-09 as laid out by the Finance Commission.

Table 2: Key Financial Indicators for Karnataka

All figures in Rs. Crore	**2005-06**	**2006-07**	**2007-08**	**2008-09**	**2009-10**
Gross State Domestic Product (at current prices)	183,796	205,784	240,062	270,699	298,465
Revenue Receipts (A)	30,352	37,587	41,151	43,290	49,156
Revenue Expenditure (B)	28,041	33,435	37,375	41,659	47,537
Revenue Deficit (-)/Surplus (+) (C=A-B)	2,311	4,152	3,776	1,631	1,619
Revenue Deficit as a % of GSDP [1]	**1.26%**	**2.02%**	**1.57%**	**0.60%**	**0.54%**
- Miscellaneous Capital Receipt* (E)	Nil	Nil	246	181	70
Capital Expenditure (F)	5,822	8,543	8,649	9,870	12,137
Net Loans and Advances (G)	-176	-297	-705	-674	-427
Fiscal Deficit(-)/ Surplus(+)(H=A+E+G-B-F)	-3687	-4688	-5332	-8732	-10875
Fiscal Deficit as a % of GSDP [2]	**-2.01%**	**-2.28%**	**-2.22%**	**-3.2%**	**-3.64%**

[1] As per the guidelines of the 12th finance commission, the revenue deficit relative to GSDP for the centre and the States, for their combined as well as individual accounts should be brought down to zero by 2008-09.

[2] As per the guidelines of the 12th finance commission, the fiscal deficit to GSDP ratio targets for the centre and the States may be fixed at 3 per cent of GSDP each.

*Miscellaneous Capital Receipts are a subset of Capital Receipts, primarily proceeds from disinvestment in public sector undertakings, including proceeds from land sales. It is used to calculate Fiscal Deficit.

Revenue Receipts

Table 3 gives the break-up of Revenue Receipts for the Karnataka government. Revenue receipts contain the state's own tax and non-tax revenues, central tax transfers and grants from the Central government. Karnataka received an average of 28% revenue from the Central sources. In 2009-2010, this amount was at 31%.

Revenue receipts showed progressive increase from 30,352 crore in 2005-06 to 49,156 crore in 2009-10. On an average 72% of the revenue came from State's own resources during the period 2005-10. The balance was from transfers from GOI in the form of State's share of taxes and grants-in-aid

Table 3: Break-up of Revenue Receipts

All figures in Rs. Crore	**2005-06**	**2006-07**	**2007-08**	**2008-09**	**2009-10**
Tax receipt of State (A)	18,632	23,301	25,987	27,645	30,579
Non-Tax receipt of State (B)	3,875	4,099	3,358	3,159	3,334
Share of Union Taxes (C)	4,213	5,374	6,779	7,154	7,360
Grants from Government of India (D)	3,632	4,813	5,027	5,332	7,883
Total revenue receipt (E=A+B+C+D)	30,352	37,587	41,151	43,290	49,156
Total amount received from Central sources (F=C+D)	7,845	10,187	11,806	12,486	15,243
% of revenue receipt from Central sources (G=F/E %)	**25.85%**	**27.10%**	**28.69%**	**28.84%**	**31.01%**

Committed Expenditure

Table 4 gives the amounts for the committed expenditure of the state as a percentage of its revenue expenditure. Committed expenditure is defined by the Comptroller and Auditor General as the expenditure on interest payments, salaries and wages, pensions and subsidies. The points to be noted are –

- The expenditure on salaries and wages alone comprised of 22% of the revenue in 2009-10. The salary expenditure did not exceed the norm of 35% of revenue expenditure (excluding interests and pensions)

- The interest payments remained within the FC's limit of 15% of the revenue receipts.
- From 2005-2010, the committed expenditure was an average of 53% of the revenue expenditure. While in the year 2005, the committed expenditure was 56% of the revenue expenditure, this number decreased to 49% in 2009-2010.

Table 4: Committed Expenditure for Karnataka

All figures in Rs. Crore	**2005-06**	**2006-07**	**2007-08**	**2008-09**	**2009-10**
Revenue Expenditure	28,041	33,435	37,375	41,659	47,537
Salaries and Wages (A)	5,932	6,426	8,169	9,912	10,342
Salaries as % of Revenue Expenditure [1]	**21%**	**19%**	**22%**	**24%**	**22%**
Interest Payments (B)	3,765	4,236	4,506	4,532	5,213
Interest Payments as a % of Revenue Receipts [2]	**12%**	**11%**	**11%**	**10%**	**11%**
Pensions (C)	2,237	2,496	3,241	4,113	3,408
Subsidies (D)	3,712	4,355	5,420	3,399	4,118
Total (E=A+B+C+D)	15,646	17,513	21,336	21,956	23,081
Revenue Receipt (F)	30,352	37,587	41,151	43,290	49,156
Committed expenditure as a % of revenue expenditure	**55.80%**	**52.38%**	**57.09%**	**52.70%**	**48.55%**

1 As per the guidelines of the 12th finance commission, States should follow a recruitment and wage policy, in a manner such that the total salary bill relative to revenue expenditure net of interest payments and pensions does not exceed 35 per cent.

2 As per the guidelines of the 12th finance commission, the centre's interest payment relative to revenue receipts should reach about 28 per cent by 2009-10. In the case of States, the level of interest payments relative to revenue receipts should fall to about 15 per cent by 2009-10.

III. Comparison of budget utilisation for Karnataka with 5 states having recently undergone elections

Introduction

Goa, Punjab, Uttarakhand, Uttar Pradesh and Manipur were the five states which went into Assembly elections in early 2012. The performance of Karnataka has been compared to these states in the analysis below.

Key targets set by the 12th Finance Commission

Table 1a summarizes the performance of the Karnataka state government in comparison to the 5 states which underwent elections recently with regard to the targets laid out by the 12th Finance Commission. The performance has been compared for the year 2009-2010.

The points to be noted are as follows:

- The fiscal deficit of Karnataka is the second lowest in comparison to the fiscal deficit of the other 5 states at 3.6%.
- Karnataka and Goa have spent the lowest on salaries and wages, 22%, while Manipur has spent the highest on salaries and wages with 39% as compared to the 35% limit of the Finance Commission.
- Except for Punjab, the interest payments of the rest of the states were within the target of 15%.

Table 1a: Key targets set by the 12th Finance Commission (Aggregate figures from 2005-2010)

All figures in percentages	**Target as per the 12th finance commission report**	**Actuals**					
		Karnataka	**Goa**	**Manipur**	**Punjab**	**Uttar Pradesh**	**Uttarakhand**
Revenue Deficit as a % of GSDP	The revenue deficit relative to GSDP for the centre and the States, for their combined as well as individual accounts should be **brought down to zero** by 2008-09	**0.54%**	-0.56%	**9.89%**	**-2.73%**	**1.43%**	**-2.31%**
Fiscal Deficit in % of GSDP	The fiscal deficit to GSDP ratio targets for the centre and the States may be fixed at **3 per cent of GSDP** each.	**-3.64%**	**-5.49%**	**-8.44%**	**-3.21%**	**-3.80%**	**-5.94%**

All figures in percentages	**Target as per the 12th finance commission report**	**Actuals**					
		Karnataka	**Goa**	**Manipur**	**Punjab**	**Uttar Pradesh**	**Uttarakhand**
Salaries and wages as a % of revenue expenditure	States should follow a recruitment and wage policy, in a manner such that the total salary bill relative to revenue expenditure net of interest payments and pensions does not exceed **35 per cen**t.	22%	22%	**39%**	29%	33%	33%
Interest Payments as a % of revenue receipts	In the case of States, the level of interest payments relative to revenue receipts should fall to about **15 per cent** by 2009-10	11%	15%	9%	**22%**	15%	14%

Per Capita Income of states for the year 2009-2010

Table 1b specifies the per capita income of states for the year 2009-2010. The points to be noted are:

- Goa had the highest per capita income of Rs. 1,54,433 among all the states compared while Uttar Pradesh has the lowest per capita income of Rs. 24,617.
- Karnataka has the third highest per capita income with 48,824 Rs per annum.

Table 1b: Per capita income of states for the year 2009-2010

	Karnataka	**Goa**	**Manipur**	**Punjab**	**Uttar Pradesh**	**Uttarakhand**
GSDP for 2009-2010 [1] (in Crores)	298,465	22,512	86,87	1,92,364	4,91,302	46,872
Population Census figures 2011[2]	61130704	1457723	27,21,756	2,77,04,236	19,95,81,477	1,01,16,752
Per Capita Incomes (in Rs)	**48,824**	**154,433**	**31,917**	**69,435**	**24,617**	**46,331**

[1] The per capita income of states has been calculated on the data 2009-2010 GDP data.

[2] The population figures have been taken from the 2011 census data

Key Financial Indicators

Table 2a gives the state financial indicators for 2009-2010 for Karnataka as compared with the 5 states having undergone elections in 2012. The point to be noted is:

- Fiscal deficit for 2009-2010 was -3.64% of the GSDP for Karnataka. This is second highest in the list, and lower in comparison to other Special Category States (8% for Manipur and 6% for Uttarakhand).

Table 2a: Key Aggregate Financial Indicators 2009-2010

All figures in Rs. Crore	**Karnataka**	**Goa**	**Manipur**	**Punjab**	**Uttar Pradesh**	**Uttarakhand**
Gross State Domestic Product (at current prices)	298,465	22,512	8,687	1,92,364	4,91,302	46,872
Revenue Receipts (A)	49,156	4100	3,873	22,157	96421	9,486
Revenue Expenditure (B)	47,537	4227	3,014	27408	89374	10,567
Revenue Deficit (-)/Surplus (+) (C=A-B)	1,619	-127	859	-5,251	7,047	-1081
Revenue Deficit as % of GSDP [1]	**0.54%**	**-0.56%**	**9.89%**	**-2.73%**	**1.43%**	**-2.31%**
Capital Receipts (D)	NA	645	523	8,360	22,782	1,747
- Miscellaneous Capital Receipts* (E)	70	0	0	1	0	0
Capital Expenditure (F)	12,137	1084	1,588	2,166	25,091	1,647
Net Loans and Advances (G)	-427	-24	-4	1247	-649	35
Fiscal Deficit(-)/ Surplus(+)* (H=A+E+G-B-F)	-10875	-1235	-733	-6,170	-18,693	-2,783
Fiscal Deficit as % of GSDP [2]	**-3.64%**	**-5.49%**	**-8.44%**	**-3.21%**	**-3.80%**	**-5.94%**

[1] As per the guidelines of the 12th finance commission, the revenue deficit relative to GSDP for the centre and the States, for their combined as well as individual accounts should be brought down to zero by 2008-09.

[2] As per the guidelines of the 12th finance commission, the fiscal deficit to GSDP ratio targets for the centre and the States may be fixed at 3 per cent of GSDP each.

*Miscellaneous Capital Receipts are a subset of Capital Receipts, primarily proceeds from disinvestment in public sector undertakings, including proceeds from land sales. It is used to calculate Fiscal Deficit.

Revenue Receipts

Table 3 gives the break-up of Revenue Receipts for 2009-2010. Significant points are:

- Karnataka is reliant on Central Funding to the extent of 31%.
- Manipur which is a special category state is the most reliant on Central funding going to the extent of 89%. Uttarakhand which is also a Special Category State is dependent to a lesser extent on central funding at 56%.
- Among the 6 states analysed Goa is the least dependant on Central funding to the extent of 15%.

Table 3a: Break-up of Revenue Receipts (2009-2010)

All figures in Rs. Crore	**Karnataka**	**Goa**	**Manipur**	**Punjab**	**Uttar Pradesh**	**Uttarakhand**
Tax receipt of State (A)	30,579	4100	3873	22,157	96,421	9,486
Non-Tax receipt of State (B)	3,334	1762	196	12,039	33,878	3,559
Share of Union Taxes (C)	7,360	1731	240	5,653	13,601	632
Grants from Government of India (D)	7,883	428	597	2,144	31,797	1,550
Total revenue receipt (E=A+B+C+D)	49,156	179	2840	2,320	17,146	3,745
Total amount received from Central sources (F=C+D)	15,243	607	3437	4464	48,943	5295
% of revenue receipt from Central sources (G=F/E %)	**31%**	**15%**	**89%**	**20%**	**51%**	**56%**

Committed Expenditure

Table 4 gives the amounts for the committed expenditure of the State as a percentage of its revenue expenditure. Committed expenditure is defined by the Comptroller and Auditor General as the expenditure on interest payments, salaries and wages, pensions and subsidies. The points to be noted are –

- Karnataka and Goa have the lowest committed expenditure (salaries, interest payments etc.) as a percentage of revenue expenditure at 48%. Punjab and Uttarakhand have the highest committed expenditure at 71%.

- While the expenditure on salaries in Karnataka, Goa and Punjab remained within the FC's limit of 35%, Manipur, Uttar Pradesh and Uttarkhand exceeded the limit. Uttarakhand spent the highest on salaries with 46%.
- Among the 6 states analysed, Punjab was the only state which exceeded the 15% limit of interest payments. The interest payments for Punjab comprised of 23% of the revenue receipts.

Table 4a: Committed Expenditure (2009-2010)

All figures in Rs. Crore	**Karnataka**	**Goa**	**Manipur**	**Punjab**	**Uttar Pradesh**	**Uttarakhand**
Revenue Expenditure	47537	4227	3014	27408	89374	9486
Salaries and Wages (A)	10,342	1070	1141	8,225	33347	4388
Salaries as a % of Revenue Expenditure [1]	**22%**	**25%**	**38%**	**30%**	**37%**	**46%**
Interest Payments (B)	5,213	583	323	5,011	11988	1338
Interest Payments as a % of revenue receipts [2]	**11%**	**14%**	**8%**	**23%**	**12%**	**14%**
Pensions (C)	3,408	350	293	3,357	11,074	1,047
Subsidies (D)	4,118	58	3	2,919	4,275	42
Total (E=A+B+C+D)	23,081	2,061	1760	19,512	60,684	6,815
Revenue Receipt (F)	49,156	4100	3873	22,157	96,421	9,486
Committed expenditure as a % of revenue expenditure	**48.55%**	**48.76%**	**58.39%**	**71.19%**	**67.90%**	**71.84%**

[1] As per the guidelines of the 12th finance commission, States should follow a recruitment and wage policy, in a manner such that the total salary bill relative to revenue expenditure net of interest payments and pensions does not exceed 35 per cent.

[2] As per the guidelines of the 12th finance commission, the centre's interest payment relative to revenue receipts should reach about 28 per cent by 2009-10. In the case of States, the level of interest payments relative to revenue receipts should fall to about 15 per cent by 2009-10.

IV. APPENDIX

Definitions

Term	Definition
Per Capita Income	It is a measure of mean income within an economic aggregate, such as a country or city. It is calculated by taking a measure of all sources of income in the aggregate (such as GDP or Gross National Income) and dividing it by the total population.
Gross State Domestic Product (GSDP)	The monetary value of all the finished goods and services produced within a country's borders in a specific time period. It includes all of private and public consumption, government outlays, investments and exports less imports that occur within a defined territory.
Revenue Receipt	Revenue receipt consists of state tax receipts + state non-tax receipts + share of Union taxes + grants from Government of India
Capital Receipt	Capital receipts consist of borrowing and other liabilities as well as recoveries of loans. Capital receipts create liabilities or reduce assets
Revenue Expenditure	Expenditure that does not result in the creation of long term assets, but is instead used in the day-to-day running of the government
Capital Expenditure	Any expenditure other than operating expenditure, the benefits of which extend over a period of time exceeding one year. It is expenditure on the creation of assets.
Revenue Deficit	Revenue Deficit denotes the difference between revenue receipts and revenue expenditure
Gross Fiscal Deficit	The Fiscal Deficit (FD) is a measure of the extent to which the Government spends beyond its means by resorting to borrowings and becomes indebted in the process. It is defined by the CAG as Revenue Expenditure + Capital Expenditure + Net Loans and Advances - Revenue Receipts - Miscellaneous Capital Receipts
Net Fiscal Deficit	Gross fiscal deficit less net lending of the Central Government.
Planned expenditure	Expenditure on programs/projects recommended by the Planning Commission
Non-plan expenditure	All expenditures by the Government not included in the Plan, mainly consisting of interest payments and subsidies

Sources: Comptroller and Auditor General State Finance Audit Reports.

Censusindia.gov.in

12th Finance Commission

http://finmin.nic.in/the_ministry/dept_expenditure/plan_finance/FCD/main-recomm.asp?pageid=9