

Economy

Karnataka budget fiscally prudent despite pandemic: Brickwork Ratings

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As in other States, the Covid-19 pandemic had a disastrous effect on Karnataka's fiscal health.

The lockdown and closure of economic activities had its effect leaving the State's own tax revenues in 2020-21 lower than the budget estimate by ₹17,049 crore, and the tax devolution lower by ₹8,538 crore, partly due to lower central tax collections and partly due to the lower tax devolution resulting from the Fifteenth Finance Commission's award.

M Govinda Rao, Chief Economic Advisor, **Brickwork Ratings** in his report on Karnataka Budget 2021-22, said "The shortfall in the total revenue receipts in the revised estimate was ₹20,211 crore. As a ratio of the GSDP, the revised estimate of revenue receipts at 5.3 percent was lower than the budgeted by almost one percentage point, and it was lower than the previous year's actual collection by 0.8 percentage point."

Even as the Centre provided additional fiscal space of 2 per cent of the GSDP to meet the revenue shortfall and additional expenditure liability due to the pandemic, the government has tried to contain the fiscal deficit and did not avail of the entire additional borrowing space, and contained the fiscal deficit at 3.2 percent of the GSDP.

Rao said "Of course, the State has had to severely compress capital expenditures. Despite additional demands for spending to save lives and livelihoods, the revenue expenditure was reduced by ₹582 crore in the revised estimate over the budgeted, but the capital expenditure reduction was much higher, at ₹7,387 crore. Thus, while limiting the fiscal deficit would help arrest the increase in the debt-GSDP ratio, the compression of capital expenditures would have adverse effects on medium- and long-term economic growth in the State."

In 2021-22, the tax revenue (own) is estimated to be higher than the 2020-21(RE) by ₹16,552 crore. This would require 17.7 per cent growth over the previous year. The estimated tax to GSDP ratio at 6.6 per cent is the highest in recent years. The tax to GSDP ratio in 2021-22 is estimated to be higher than the previous year by 1.3 percentage points, and it is higher than the 2019-20 actuals by around 0.3 per cent.

"The estimate looks ambitious, particularly because with the continued spread of the pandemic, many sectors requiring social distancing are yet to recover and the adverse impact of pandemic on economic activity is expected to continue," explained Rao.

On the expenditure side, the State's total expenditure is estimated to grow by 7.1 per cent over 2020-21 (RE). The increase in revenue expenditure is estimated at 4.8 per cent, and capital expenditure is estimated to increase by 15.9 per cent.

Rao said "It is too early to say whether the State government will be able to contain the revenue expenditure at the level budgeted, particularly as there are demands by many spending departments for higher allocation as the pressure to contain expenditures, which started in 2020-21, has continued into the next year."