

An Analytical Study of Karnataka State Budget 2025–26: Fiscal Priorities, Social Commitments, And Economic Implications

Dr. Chethan Kumar C

Assistant Professor, Dept of Political Science
PG Centre Ramanagar, Karnataka

Abstract- *The Karnataka State Budget 2025–26, presented by Chief Minister Siddaramaiah, outlines a strategic roadmap aimed at balancing welfare commitments with fiscal discipline. With a projected Gross State Domestic Product (GSDP) of ₹30.70 lakh crore, the state estimates a fiscal deficit of ₹90,428 crore (2.9% of GSDP) and a revenue deficit of ₹19,262 crore (0.6% of GSDP). This study aims to analyze the fiscal structure, sectoral allocations, tax trends, and welfare expenditure using secondary data from government budget documents, PRS Legislative Research, and CAG reports. The methodology involves descriptive and analytical techniques focusing on budget indicators, sectoral trends, and policy impacts. Key findings reveal that the total budgeted expenditure stands at ₹4,09,549 crore, with ₹3,11,739 crore allocated to revenue expenditure and ₹68,172 crore to capital outlay. The five guarantee schemes alone consume ₹51,034 crore, representing 17% of revenue receipts. While education (₹40,954 crores), health (₹18,690 crores), and irrigation (₹22,186 crores) have seen notable allocations, spending remains below national averages in the education and health sectors. Committed expenditure on salaries, pensions, and interest payments accounts for 58% of revenue receipts, limiting fiscal flexibility. The study suggests enhancing tax compliance, monitoring welfare program efficiency, rationalizing salaries and pensions, and increasing capital investments in underfunded sectors. In conclusion, Karnataka's budget reflects a welfare-centric yet fiscally cautious approach. However, sustaining this model demands improved revenue mobilization and better governance of public spending. References include PRS Legislative Research (2025), Government of Karnataka Budget Documents (2025), and the CAG State Finance Report (2023).*

Keywords- Karnataka Budget 2025, Fiscal Deficit, Revenue Deficit, GSDP, Social Welfare, State Finance, Capital Outlay, Public Debt.

I. INTRODUCTION

The Karnataka State Budget 2025–26, presented by Chief Minister Siddaramaiah on March 7, 2025, outlines a strategic roadmap aimed at balancing welfare commitments with fiscal discipline in the post-pandemic economic recovery era. As one of India's most progressive states, Karnataka has consistently been at the forefront of economic reforms, technology-driven governance, and welfare innovations. The 2025–26 budget comes at a crucial time when the state faces rising revenue deficits, growing public debt, and the burden of financing ambitious social welfare guarantees introduced in the previous years. Against this backdrop, the budget proposes a GSDP of ₹30.70 lakh crore with estimated fiscal and revenue deficits of ₹90,428 crore (2.9% of GSDP) and ₹19,262 crore (0.6% of GSDP), respectively. This study aims to analyze the fiscal structure, sectoral allocations, tax trends, and welfare expenditure using secondary data from government budget documents, PRS Legislative Research, and CAG reports. The methodology involves descriptive and analytical techniques focusing on budget indicators, sectoral trends, and policy impacts. Key findings reveal that the total budgeted expenditure stands at ₹4,09,549 crore, with ₹3,11,739 crore allocated to revenue expenditure and ₹68,172 crore to capital outlay. The five guarantee schemes alone consume ₹51,034 crore, representing 17% of revenue receipts. While education (₹40,954 crores), health (₹18,690 crores), and irrigation (₹22,186 crores) have seen notable allocations, spending remains below national averages in the education and health sectors. Committed expenditure on salaries, pensions, and interest payments accounts for 58% of revenue receipts, limiting fiscal flexibility.

Objectives of the Study

- To examine the overall fiscal structure of Karnataka's State Budget 2025–26, including revenue and expenditure patterns.

- To analyze key economic indicators such as fiscal deficit, revenue deficit, capital outlay, and their implications on state finances.
- To evaluate the allocation of budgetary resources across major sectors like education, health, agriculture, energy, and infrastructure.
- To assess the financial impact of the five major guarantee schemes on the state's revenue and fiscal discipline.
- To understand the trends in Karnataka's tax and non-tax revenue generation and its dependency on central transfers.
- To review the share of committed expenditure (salaries, pensions, interest payments) and its effect on developmental spending.
- To identify the challenges and opportunities in public financial management and suggest measures for improving fiscal sustainability and equity.

II. RESEARCH METHODOLOGY

The present study adopts a descriptive and analytical research methodology to examine the fiscal policies, expenditure patterns, and socio-economic priorities reflected in the Karnataka State Budget 2025–26. The study is entirely based on secondary data collected from reliable government and institutional sources such as the Karnataka Budget Documents (2025–26), PRS Legislative Research reports, Comptroller and Auditor General (CAG) audit reports, and economic surveys.

The descriptive aspect of the methodology involves summarizing and presenting budget data, including allocations, deficits, receipts, and sector-wise expenditures. Key variables such as GSDP, revenue receipts, fiscal deficit, capital outlay, and committed expenditure are identified and interpreted to understand budgetary trends over time.

The analytical component includes trend analysis, percentage change comparisons, and ratio analysis (e.g., fiscal deficit as a percentage of GSDP, share of social sector expenditure in total budget, etc.). Tables and charts from the budget document are used to evaluate financial performance against prior years and to benchmark Karnataka's spending in key sectors like health, education, and infrastructure against national averages.

The methodology also includes policy interpretation, where schemes such as the five guarantees (Gruha Lakshmi, Gruha Jyothi, Shakthi, Anna Bhagya, and Yuva Nidhi) are assessed for their fiscal impact, sustainability, and policy

relevance. Fiscal indicators are analyzed within the framework of the Karnataka Fiscal Responsibility Act, 2002, and the FRBM (Fiscal Responsibility and Budget Management) guidelines set by the Government of India.

The study aims to be objective, data-driven, and policy-relevant, providing insights that may inform future budget planning, fiscal reforms, and public policy interventions in the state.

Analytical Summary of Karnataka Budget 2025–26

- The Chief Minister of Karnataka presented the 2025–26 budget on March 7, 2025, projecting a GSDP of ₹30.7 lakh crore, with a growth rate of 7% over the previous year.
- The total expenditure (excluding debt repayment) is estimated at ₹3,83,075 crore, which marks a 12% increase from the revised estimates for 2024–25.
- The state's receipts (excluding borrowings) are expected to rise to ₹2,92,647 crore, a 13% increase from the previous year's revised estimates.
- Karnataka expects a revenue deficit of 0.6% of GSDP (₹19,262 crore), improving from 0.9% in 2024–25, indicating better fiscal management.
- The fiscal deficit is estimated at ₹90,428 crore, maintaining a stable 2.9% of GSDP, aligned with FRBM targets and within the central government's limit.
- Revenue expenditure is projected at ₹3,11,739 crore, up by 10%, while capital outlay is pegged at ₹68,172 crores, showing a sharp 25% increase, signalling a push towards infrastructure development.
- The state plans to spend ₹51,034 crore on its five guarantee schemes—Gruhalakshmi, Gruha Jyothi, Annabhagya, Shakthi, and Yuvanidhi—comprising 17% of total revenue receipts.
- Committed expenditures, including salaries, pensions, and interest, will consume 58% of revenue receipts, limiting fiscal flexibility for new schemes.
- The Education sector received ₹40,954 crore, marking an 11% increase, but still below the national average allocation of 15% of state budgets.
- The health sector was allocated ₹18,690 crore, a 23% increase, yet remains below the national average of 6.2% of total expenditure.
- A significant boost was given to Energy (₹26,853 crore) and Irrigation (₹22,186 crore), showing 16% and 19% increases, respectively, indicating a focus on rural support and agricultural sustainability.

- Social welfare and nutrition received ₹46,397 crore, of which ₹28,608 crore went to the Gruha Lakshmi scheme, providing direct cash support to women heads of households.
- Transport allocation was reduced slightly by 5%, despite ₹5,300 crore being allocated for the Shakti Scheme, which provides free bus travel for women.
- Receipts from taxes are projected at ₹2,08,100 crore, with State GST (₹92,132 crore) and Excise (₹40,000 crore) leading the revenue sources.
- The share of Karnataka in central taxes is expected to be ₹51,877 crore, while grants from the Centre remain stagnant at ₹16,000 crore.
- The state's tax revenue as a % of GSDP is estimated at 6.8%, reflecting improved fiscal mobilization.
- Rising interest payments, now accounting for 16% of revenue receipts, indicate increasing debt servicing pressure on the state exchequer.
- Total outstanding liabilities are expected to rise to 25% of GSDP, up from 24%, highlighting a long-term risk of growing debt.
- Karnataka's guarantees to state enterprises total ₹44,247 crore, which is 2% of GSDP, posing contingent liabilities for the state.
- Sector-wise comparisons reveal that Karnataka lags behind national averages in education, health, and rural development but exceeds in energy, irrigation, and welfare of marginalized communities.

III. RESULT AND DISCUSSION

The Karnataka State Budget 2025–26 presents a balanced approach between welfare-oriented schemes and capital infrastructure development. The budget has maintained fiscal discipline by keeping the fiscal deficit at 2.9% of GSDP, aligning with FRBM norms. A notable feature is the increase in capital outlay by 25%, which reflects a developmental agenda, particularly focusing on medium irrigation projects, power subsidies, and urban infrastructure.

However, despite the improved revenue management and enhanced tax mobilization, the budget exhibits some structural imbalances. The continued revenue deficit, although reduced from the previous year, highlights the impact of increased social spending under the five guarantee schemes. Furthermore, the rising committed expenditure, especially interest payments (16% of revenue receipts), limits the fiscal space for innovative developmental interventions. In terms of sectoral prioritization, the budget shows a clear emphasis on social welfare, energy, and irrigation. Nevertheless, allocations for education (10.8%) and health

(4.9%) remain below the national average, potentially impacting human development outcomes in the long run. Also, sectors like housing and rural development have not received proportionate boosts despite their strategic importance.

The budget also introduces policy reforms such as the Employer's Compliance Digitisation Bill, indicating a move toward business ease and governance modernization.

IV. KEY FINDINGS

- GSDP Growth is estimated at 7%, with improved own-tax revenue projected at ₹2,08,100 crore—a 15% increase from 2024–25.
- The revenue deficit is reduced to 0.6% of GSDP, compared to 0.9% in the previous year, but the state continues to operate in a deficit.
- The fiscal deficit remains at 2.9%, which is in line with fiscal prudence frameworks.
- Capital outlay saw a significant rise of 25%, indicating long-term infrastructure investments.
- Five guarantee schemes received a collective allocation of ₹51,034 crore, accounting for 17% of total revenue receipts.
- Education and health sectors received below-average allocations compared to other Indian states.
- Committed expenditure (salaries, pensions, interest) forms 58% of revenue receipts, limiting spending flexibility.
- Interest payments are expected to consume ₹45,600 crore, demonstrating a rising debt servicing burden.
- Outstanding state liabilities are projected at 25% of GSDP, reflecting a growing debt load.
- Karnataka performs above the national average in allocations to energy (7.1%), irrigation (5.8%), and welfare of SC/ST/OBC (4.4%).

V. SUGGESTIONS OF RESEARCH

- Re-balance Sectoral Allocations: Increase investments in education and healthcare to meet or exceed the national average (15% and 6.2%, respectively) to enhance human capital development.
- Rationalize Welfare Spending: Ensure better targeting and impact assessment of the five guarantee schemes to avoid long-term fiscal stress.
- Strengthen Fiscal Space: Implement expenditure compression strategies or broaden the tax base to manage the high committed expenditure and reduce debt reliance.

- Debt Management Strategy: Adopt a structured medium-term debt strategy to manage rising liabilities and control interest burdens.
- Enhance Rural Development Funding: Increase allocations to rural development and housing to reduce regional disparities and urban migration pressures.
- Focus on Outcome-Based Budgeting: Introduce performance-linked financing in social and infrastructure sectors to ensure accountability and results.
- Leverage Private Sector Participation: Encourage PPP models in transport, irrigation, and energy sectors to reduce public spending pressure and improve efficiency.
- Increase Non-Tax Revenues: Explore alternative revenue-generating avenues such as land monetization, user charges, and public asset optimization.

VI. CONCLUSION

The Karnataka State Budget 2025–26 reflects a conscious effort by the government to maintain fiscal discipline while addressing socio-economic priorities through welfare schemes and infrastructure investment. The state's strategy of containing the fiscal deficit at 2.9% of GSDP and reducing the revenue deficit to 0.6% is commendable, especially amidst high social sector spending. The budget's emphasis on capital outlay, particularly in energy, irrigation, and urban infrastructure, signals a shift towards long-term asset creation and economic stimulus.

However, the skewed allocation patterns—especially the relatively low investments in education, health, and rural development—suggest the need for a more balanced and inclusive approach. The rising committed expenditure, coupled with increasing debt servicing obligations, could limit future fiscal flexibility and development capacity unless carefully managed.

Overall, the budget lays a strong foundation for growth, but sustaining this trajectory will require strategic reallocation of resources, robust implementation, and ongoing fiscal reforms to ensure inclusive and equitable development across Karnataka.

REFERENCES

- [1] Comptroller and Auditor General of India. (2023). *State Finances Audit Report: Karnataka for the year ending March 2023*. <https://cag.gov.in>
- [2] Economic Times. (2025, March 8). *Karnataka Budget 2025: Siddaramaiah allocates ₹51,000 crore for five guarantees*. [https://economictimes.indiatimes.com/news/in-dia/karnataka-budget-2025-siddaramaiah-allocates-rs-](https://economictimes.indiatimes.com/news/in-dia/karnataka-budget-2025-siddaramaiah-allocates-rs-51000-crore-for-five-guarantees/articleshow/108373560.cms)
- [3] Government of India. (2024). *Economic Survey of India 2023–24*. Ministry of Finance, Economic Division. <https://indiabudget.gov.in/economicsurvey/>
- [4] Government of Karnataka. (2025). *Annual Financial Statement 2025–26*. Finance Department, Government of Karnataka. <https://finance.karnataka.gov.in>
- [5] Government of Karnataka. (2025). *Karnataka Medium-Term Fiscal Policy Report 2025–29*. Finance Department, Government of Karnataka.
- [6] Economic Survey of Karnataka 2024-25
- [7] Indian Express. (2025, March 7). *Karnataka Budget 2025: Focus on infrastructure, agriculture, and guarantee schemes*. <https://indianexpress.com/article/cities/bangalore/karnataka-budget-2025-siddaramaiah-infrastructure-agriculture-9190857/>
- [8] Ministry of Statistics and Programme Implementation (MoSPI). (2024). *State Domestic Product and Related Aggregates, Karnataka*. <https://mospi.gov.in>
- [9] PRS Legislative Research. (2025, April 1). *Karnataka Budget Analysis 2025-26*. Institute for Policy Research Studies. <https://prsindia.org/budgets/states/karnataka-budget-analysis-2025-26>
- [10] The Hindu. (2025, March 9). *Karnataka Budget 2025: Fiscal deficit pegged at 2.9%, major thrust on capital expenditure*. <https://www.thehindu.com/news/national/karnataka/karnataka-budget-2025-fiscal-deficit-pegged-at-29-major-thrust-on-capex/article68020021.ece>
- [11] Times of India. (2025, March 8). *Gruha Lakshmi scheme gets major boost in Karnataka Budget*. <https://timesofindia.indiatimes.com/city/bengaluru/karnataka-budget-2025-gruha-lakshmi-gets-major-boost/articleshow/108374567.cms>