



Summary Report for the State of Karnataka



1. Demography

As per Census population projections for 2022-23, Karnataka has a population of 67.6 million, which is about 5 per cent of India's total population.¹ The State's projected population growth rate is lower than the national average, as of 2022-23. As per the 2021 projections, Karnataka's population density and dependency ratio are both below the respective national averages. The share of population living in urban areas, at 44.4 per cent, is much higher as compared to the national average (35.1 per cent) according to 2023 projections. As per the Census 2011, the sex ratio in Karnataka has been higher than the national average. According to NFHS V (2019-21), the sex ratio at birth (female births per 1000 male births) in the State are better than the national estimate.

As of 2022-23, the annual unemployment rate in the State, at 2.4 per cent, is below the national average of 3.2 per cent, and the Female Labour Force Participation Rate is slightly above the national estimates. The working population in the State is predominantly concentrated in the Agriculture, Forestry, and Fishing (45.8 per cent); Services (33.9 per cent); Manufacturing (10.4 per cent); and Construction (9.3 per cent) sectors, as of 2022-23.²

2. Economic Structure (Growth and Sectoral Composition)

Karnataka's real GSDP grew at an average rate of 7.4 per cent during the period 2012-13 and 2021-22, higher than the national average growth of 5.6 per cent.³ Its share in the national GDP has increased from 6.6 per cent in the early 1990s to 8.4 per cent in 2021-22. And the nominal per capita income in the State is 70 per cent higher than the national per capita income, as of 2021-22.

The Services sector contributes a share of 63.2 per cent to the State's GSVA followed by the Industry sector (share of 21.5 per cent) and Agriculture sector (share of 15.4 per cent), in that order as of 2021-22. During the past ten years (2013-14 to 2022-23), the Services, Manufacturing, and Agriculture sectors have grown by 8.3 per cent, 6.8 per cent, and 6.4 per cent, respectively.⁴

3. Socio-economic Indicators

Karnataka's literacy rate, at 75.4 per cent, is slightly above the national average of 73 per cent, as of 2011.⁵ The State has higher school drop-out rates for Classes VIII to X, and a lower pass percentage for Class XII, as compared to the respective national estimates, as of 2016-17. The Gross Enrolment Ratio at the Higher Secondary level (39.9 per cent in 2015-16) is below the

¹ Projected data on population growth rate, dependency ratio, population density, and urban population is sourced from "Population Projections for Indian States 2011-2036" by the Technical Group on Population Projections, National Commission on Population, Ministry of Health and Family Welfare, Government of India.

² Data on unemployment, female labour force participation, and workforce distribution is from the Periodic Labour Force Survey, 2017-18 to 2023-24.

³ Data on Economic Structure is sourced from Ministry of Statistics and Programme Implementation (MoSPI), as of August 2023.

⁴ Data used is sourced from MoSPI, as of March 2024.

⁵ Literacy data is sourced from Office of the Registrar General and Census Commissioner, Ministry of Home Affairs, 2011.

national average, while at the Higher Education level, it is above the national average (36 per cent in 2021).⁶ For people aged 18 to 23 years, the Gender Parity Index in higher education (the ratio of girls to boys enrolled in higher education institutions) is higher than the national average, as of 2021.⁷

As of 2020, life expectancy in Karnataka is nearly at par with the national average. The Infant Mortality Rate and Total Fertility Rate have always been below the national averages and stood at 19 deaths per 1000 live births (2020) and 1.7 children per woman (2019-21), respectively. The percentage of fully immunised children is higher than the national average, as of 2019-21. The State has better access to basic amenities—the households' access to electricity and sanitation is above the respective national averages, while access to drinking water is almost at par with the national average, as of 2019-21.

4. State of Public Finances and Tax Devolutions

Karnataka's debt-to-GSDP ratio, at 23.9 per cent in 2022-23,⁸ is lower than that of a median State.⁹ Its contingent liabilities, at 1.7 per cent of GSDP, are at par with those of a median State, as of 2021-22. The primary and fiscal deficit levels, at 1.4 per cent and 2.7 per cent of GSDP respectively, are lower than those of a median State, as of 2022-23. The State ran a revenue deficit of 0.3 per cent of GSDP in 2022-23, which is lower than that of a median State's deficit of 0.4 per cent.

The State's own tax revenue, at about 6.4 per cent of the GSDP, is close to that of a median State, as of 2022-23. The other revenues and transfers from the Centre collectively are of the order of 3.1 per cent of GSDP, which is much lower than that of a median State, as of 2022-23. As per 2022-23, its expenditure-to-GSDP ratio, at 12.2 per cent of GSDP, is lower than that of a median State.

The Debt Sustainability Analysis shows a declining trajectory for debt-to-GSDP ratio in most of the scenarios. If the State continues to perform at the ten-year average (as in our baseline scenario where debt level, primary deficit, real GDP growth, real effective interest rate remains constant at their decadal average from 2012-13 to 2021-22.), its debt-to-GSDP ratio is projected to increase only by 0.3 percentage points, and if it absorbs the outstanding contingent liabilities, this ratio is projected to increase by nearly 2 percentage points by the end of 2026-27.

Karnataka's share in taxes from the Centre, as per the recommendations of the Finance Commission (FC), decreased from 4.7 per cent under 14th FC to 3.6 per cent under the recommendations of the 15th FC. The State's share in total grants-in-aid increased by 0.7

⁶ Data on dropout rates, pass percentage of students, and Gross Enrolment Ratio at the Higher Secondary Level is taken from Unified District Information System for Education, 2015-16.

⁷ Data on Gross Enrolment Ratio at the Higher Education Level, Gender Parity Index, and college density, is taken from the All-India Survey on Higher Education, 2020-21.

⁸ Data on fiscal variables is sourced from Reserve Bank of India, State Finances Report, as of December 2023.

⁹ For calculation of a median State, the variable as a percentage of the GSDP was computed for each State, with the median across 22 major States shown (excluding all Union Territories and the North-eastern States, except Assam). The Macro and Fiscal Landscape State brief includes this benchmark in the States' Median (Large States), Column 6, Table 4A.

percentage points under the 15th FC, compared to the corresponding figure of 3.1 per cent under the 14th FC.

5. Fiscal Rules

Karnataka was the first State in the country to establish fiscal rules through a Medium-Term Fiscal Plan (MTFP) in 2000, much before the enactment of the Union's Fiscal Responsibility Budget Management Act, 2003.¹⁰ In 2002, it introduced the Karnataka Fiscal Responsibility Act (FRA), 2002, which has been amended five times since then in 2009, 2011, 2014, 2021, and 2022.

Revenue Deficit: The original MTFP and FRA 2002 mandated the State to eliminate revenue deficit over the period 2001-02 to 2004-05.

Fiscal Deficit: As per the MTFP and FRA, 2002, the State was mandated to contain its fiscal deficit to 3 per cent of GSDP by 2006. In 2009, the fiscal deficit limit was raised to 3.5 per cent for the year 2008-09 and to 4 per cent of GSDP for the year 2009-10, as a one-time relaxation. In 2011, the original 3 per cent limit was raised to 3.44 per cent, which continued until 2020. The 2021 amendment raised this limit further to 5 per cent due to the pandemic and in 2021-22, it was lowered to a level of 4 per cent.

Total Liabilities: The State was mandated to reduce its total liabilities during a span of 15 years, starting from 1 April 2002 such that its total liabilities did not exceed 25 per cent of GSDP by 31 March, 2015. The 2011 amendment fixed it at a level of 25.2 per cent by 2014-15.

Fiscal Discipline: As per the State Finances Audit Report of the Comptroller and Auditor General of India (CAG), during the period 2017-18 to 2021-22, Karnataka achieved a revenue surplus in three out of five years, with the exception of 2020-21 and 2021-22. The State was able to maintain fiscal deficit targets with the specified limits for all the five years. Its debt-to-GDP ratio exceeded the specified limit only once in 2021-22.

¹⁰ Data is sourced from the State Audit Report of the CAG for the respective years and the State Government Gazette.