GST shortfall and the options provided by centre to the states

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In news

Recently, Kerala has joined 24 other states and UTs in accepting Option-I put forward by the Centre for meeting the Goods and Service Tax (GST) compensation cess shortfall.

What are the options provided by the centre to the states to meet GST shortfall?

- The Centre had in August given two options to the States
    1. to borrow either ₹97,000 crore from a **special window facilitated by the RBI** (Centre has contended that the balance ₹1.38 lakh crore is attributable to an 'act of God' (the COVID-19 pandemic) that is independent of implementation of the new indirect tax regime) OR
    2. to borrow ₹ 2.35 lakh crore from the market (here the interest cost would have to be borne by them with only the principal being serviced by the Compensation Fund).

- Under the first option, states have been allowed to borrow Rs 1.1 lakh crore from the market.
- This will be serviced from the compensation cess that has been extended beyond the originally agreed five-year tenure that ends June 2022.
- Including Kerala 25 states have chosen this option to borrow
- By accepting Option I, Kerala will also receive funds

raised through this window starting from the next round of borrowings.

- Besides getting the facility of a special window for borrowings to meet the shortfall, the States are also entitled to unconditional permission to borrow the final instalment of 0.5% of Gross State Domestic Product out of the 2% additional borrowings permitted under Atmanirbhar Abhiyaan on May 17. This is over and above the special window of ₹1.1 lakh crore.
- The states will also be provided a special window to borrow the amount through the issue of debt.
- Some of the states have asked the Centre to set up a committee of officers to formalise the modalities of availing the Rs 1.1 lakh crore.
- The committee should provide details of the borrowing mechanism including loan tenure and repayment terms under the only funding option that is now available.
- The special window under option one, totalling Rs 1.1 trillion, has been operationalised since October 23.
- The Central government has already borrowed Rs 24,000 crore on behalf of states in four instalments and passed it on to states and Union Territories that have opted for this window

Compensation bonds:

- As the states sell debt securities in the market to raise Rs 1.1 lakh crores, the Centre will keep the interest cost on these borrowings “at or close to” the yield on G-Sec (bonds issued by the Government of India).
- In the event of the cost being higher, the centre bears a part of the difference through a subsidy.
- This additional borrowing by the States will not be accounted for as a part of the State’s debt for purposes of its overall debt calculation.