

GST gap: ₹2.16-lakh cr will be available to States unconditionally, says FM

₹1.1-lakh cr from special window plus their extra borrowing of 0.5% of GSDP: Sitharaman

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On the heels of the Centre offering to borrow on their behalf to meet the GST compensation shortfall, Finance Minister Nirmala Sitharaman told States that as much as ₹2.16-lakh crore would be available to them, unconditionally.

"The amount of funds available to States collectively under Option 1 works out to ₹1,10,208 crore (special window) plus ₹1,06,830 crore (0.5 per cent of GSDP without condition)," she said in a letter to all the Chief Ministers. This adds up to ₹2.16-lakh crore.

"This more than covers the funds which would have been received during the current financial year, if total compensation were paid in full," the Minister wrote.

Under Option 1, 28 States and three Union Territories (Delhi,

Puducherry and Jammu & Kashmir) were offered two funding streams: One, the Centre-arranged special window that will enable borrowing ₹1.10-lakh crore, the shortfall due to GST implementation issues. And, two, unconditional open market borrowing up to 0.5 per cent of GSDP over and above the 3.5 per cent permissible under the FRBM (Fiscal Responsibility and Budget Management) Act.

Upon 21 States and two UTs opting for Option 1, they were first allowed to tap the second funding source. Then, on

Thursday, the Centre said it will borrow the ₹1.10-lakh crore and on-lend to the States, on the 'External Aided Project Funding Mechanism' model. "This will enable ease of coordination and simplicity in borrowing, apart from ensuring a favourable interest rate," Sitharaman said.

Compensation payment

She further explained that of the estimated shortfall of ₹2.35-lakh crore in the current financial year, ₹1.83-lakh crore would have been payable this year and the rest next year. "Under Option 1, the States will not face any cash shortfall relative to the hypothetical position of had

they got the total compensation under the Act," she said. It may be noted that compensation is paid bi-monthly and the last instalment for a financial year is given the following year.

The Centre has reiterated that interest and principal payment for the borrowing through the special window will be met through the future proceeds of the compensation cess. "It is the accepted position of the Government of India that the entire arrears of compensation will eventually be paid to the States (subject to deduction of amount needed for servicing of borrowings)," she said.

The Minister explained that the Centre faces serious budget constraints and that its fiscal deficit this year will far exceed that budgeted. "We have attempted to structure the special window in the optimum manner to protect the long-term economic interests of the nation including public and private sector," she said.

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NIRMALA SITHARAMAN
Finance Minister

