

In lieu of GST compensation, States, UTs get ₹75,000 cr in back-to-back loan facility

Amount is in addition to the shortfall compensation released every two months

OUR BUREAU

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The Finance Ministry has transferred ₹75,000 crore to 28 States and 3 Union Territories with legislature under the back-to-back loan facility in lieu of GST compensation. However, this will not affect Centre's borrowing programme.

This release is in addition to normal GST compensation being released every two months out of actual cess collection.

"This is part of estimated compensation shortfall of ₹1.59-lakh crore and has been front loaded. This will help in higher capital expenditure and to meet Covid-related requirements," a Senior Finance Ministry official told *BusinessLine*. Another Senior Official added that this has

nothing to do with past year dues of over ₹63,000 crore. "As decided earlier that amount will be paid after June 2022 from the collection of GST Compensation cess," he said.

Securities

As decided in the GST Council meeting, the borrowing this year to meet GST compensation shortfall is based on principles adopted for a similar facility in FY21, when ₹1.10-lakh crore was released to States under a similar arrangement. Under this arrangement, the Centre borrows on behalf of all States and UTs with legislature. This helps to raise funds at lower cost. Interest and principal amount will be repaid through collection of compensation cess.



Back-to-back loan arrangement: Top recipients

State	Amount (₹ cr)
Karnataka	8,542.17
Maharashtra	6,501.11
Gujarat	6,151.10
Punjab	5,722.78
Kerala	4,122.27
Uttar Pradesh	3,839.72
Tamil Nadu	3,818.50
Haryana	3,487.83
Rajasthan	3,428.39
Bihar	3,215.18

The release of ₹75,000 crore being made now is funded from borrowings through securities with

₹68,500 crore raised through five-year securities with weighted average yield of 5.6 per cent while remaining ₹6,500 crore borrowed on the basis of two-year securities at weighted average yield of 4.25 percent. The Ministry clarified that this will not be part of Centre's borrowing.

Borrowing programme

"Government of India's borrowing programme for the remaining period of the first half of the current Financial Year as announced in the "Issuance Calendar for Marketable Dated Securities for April 2021 - September 2021" released on 31st March 2021 remains unchanged," it said.

For the current fiscal, compensation shortfall is estimated at ₹2.69 lakh crore, for which ₹1.11 lakh crore is expected to be paid from compensation cess collection, while remaining is to be paid through borrowings. The GST

Council has already approved extension of compensation cess beyond June 2022 till entire amount of borrowing along with interest is repaid.

Commenting on the latest move, Kapil Rana, Founder & Chairman of HostBooks Ltd said release of ₹75,000 crore compensation loss will fuel the State economy to comeback from the economic slowdown and losses occurred on account of the second Covid wave, strengthen public expenditure and health infrastructure.

MS Mani, Senior Director with Deloitte India said that the release of the compensation shortfall amounts committed to States would alleviate their fiscal position; however, the "recovery of the amounts borrowed to make the payments would necessitate the extension of the period during which the compensation cess is levied beyond 2022.