

AN INCOMPLETE SOLUTION: THE HINDU EDITORIAL ON CENTRE BORROWING FOR STATES TO MEET GST SHORTFALL

Relevant for: Indian Polity | Topic: Issues and Challenges Pertaining to the Federal Structure, Dispute Redressal Mechanisms, and the Centre-State Relations

The past week witnessed some forward, albeit inexplicably delayed, movement towards breaking the deadlock between the Centre and States on bridging this year's shortfall in cess collections to recompense States for adopting the GST. Following a [lack of consensus](#) at a third meeting of the GST Council on the issue last Monday, Finance Minister Nirmala Sitharaman said States that had agreed to the Centre's proposal could begin borrowing from the market. To recap — the Centre had argued that just 1.1-lakh crore of the estimated 2.35-lakh crore shortfall in GST cess inflows was due to GST implementation; the rest was due to COVID-19. [States could borrow](#) 1.1-lakh crore with interest and principal payments to come from future cess collections; or borrow the 2.35-lakh crore, but bear the interest from their coffers. By Wednesday, [21 States had agreed to the Centre's first option](#) and were permitted to raise about 79,000 crore (0.5% of their gross State domestic product) as additional borrowing linked to their acceptance of the option. On Thursday, however, the Centre changed tack and said it was now [willing to borrow the 1.1-lakh crore and lend it onward](#). Calling this an administratively easier measure to ensure States do not end up borrowing at different interest rates, the Ministry asserted this would neither increase the fiscal deficit nor the general government debt.

States and economists have welcomed this change of heart, especially as it helps bring in much needed cash for States to fight the pandemic. However, it is odd that the 'administrative ease' of the Centre borrowing and lending to States, had not struck North Block mandarins earlier — given that the cess collection worries surfaced soon after the lockdown was imposed. Over the course of the negotiations, States had urged the Centre to borrow and pay them, but the Finance Ministry had repeatedly stressed that this would push up interest rates and upset its fiscal math. Precious time could have been saved had the Centre made this offer earlier — seven months into a year that has seen economic activity and revenue sources dry up, and States have only received 20,000 crore from the GST cess. Kerala, which was considering a petition in the Supreme Court with other Opposition-ruled States, has cooled off on the legal route, but [sought full payment of the 2.35-lakh crore shortfall this fiscal](#). On Friday, Ms. Sitharaman wrote to Chief Ministers suggesting that the 1.1-lakh crore, in addition to the 0.5% of GSDP borrowing, would give them 2.16-lakh crore, or almost 90% of the compensation shortfall. Cash flow assurances aside, the Centre must now talk to States to ensure greater clarity on the unanswered questions — including when the States will get the balance GST compensation. That is imperative to sustain the fragile peace attained for now.

You have reached your limit for free articles this month.

To get full access, please subscribe.

Already have an account ? [Sign in](#)

Start your 14 days free trial. [Sign Up](#)

Dear reader,

We have been keeping you up-to-date with information on the developments in India and the

world that have a bearing on our health and wellbeing, our lives and livelihoods, during these difficult times. To enable wide dissemination of news that is in public interest, we have increased the number of articles that can be read free, and extended free trial periods. However, we have a request for those who can afford to subscribe: please do. As we fight disinformation and misinformation, and keep apace with the happenings, we need to commit greater resources to news gathering operations. We promise to deliver quality journalism that stays away from vested interest and political propaganda.

Dear subscriber,

Thank you!

Your support for our journalism is invaluable. It's a support for truth and fairness in journalism. It has helped us keep apace with events and happenings.

The Hindu has always stood for journalism that is in the public interest. At this difficult time, it becomes even more important that we have access to information that has a bearing on our health and well-being, our lives, and livelihoods. As a subscriber, you are not only a beneficiary of our work but also its enabler.

We also reiterate here the promise that our team of reporters, copy editors, fact-checkers, designers, and photographers will deliver quality journalism that stays away from vested interest and political propaganda.

Suresh Nambath

Please enter a valid email address.

From the abrogation of the special status of Jammu and Kashmir, to the landmark Ayodhya verdict, 2019 proved to be an eventful year.

Subscribe to The Hindu now and get unlimited access.

Already have an account? [Sign In](#)

Start your 14 days free trial [Sign Up](#)

END

Downloaded from **crackIAS.com**

© **Zuccess App** by crackIAS.com