



IAS PARLIAMENT

Information is Empowering
A Shankar IAS Academy Initiative

Ways and Means Advances

Why in News?

The Reserve Bank of India (RBI) increased the Ways and Means Advances (WMA) limit of state governments.

Why the WMA limit was increased?

- On 17th April 2020, the RBI announced a 60% increase in the WMA limit of the state governments.
- This increase is over the level as on March 31, 2020.
- It would enable the state governments to undertake effective COVID-19 containment and mitigation efforts.
- It would also enable them to better plan their market borrowings.

What is WMA?

- Section 17(5) of the RBI Act, 1934 authorises the RBI to lend to the Centre and state governments as WMA.
- It can lend them only if they can repay it within 3 months from the date of making the advance.
- These borrowings may help the governments to **tide over temporary mismatches** in cash flows of their receipts and expenditures.

How much does the RBI charge on these advances?

- The interest rate on WMA is the RBI's repo rate, which is currently 4.4%
- [Repo rate is a rate at which the RBI lends short-term money to banks.]
- But the governments can draw amounts in excess of their WMA limits.
- The interest on such overdraft is 2 percentage points above the repo rate, which now works out to 6.4%.
- Further, no state can run an overdraft with the RBI for more than a certain period.

What are the existing WMA limits and overdraft conditions?

- **For the Centre** - The WMA limit for the period of April-September, 2020-21 has been fixed at Rs 120,000 crore.
- This is 60% higher than the limit for the same period of 2019-20.
- **For the states** - After a 60% increase, the aggregate WMA limit is at Rs 51,560 crore.
- The higher limit will be valid until September 30.

Why all these relaxations been made?

- Due to lockdown, the revenues are collapsing and uncertain.
- The expenditures for combating the novel coronavirus are mounting.
- Therefore, the states are facing an unprecedented cash crunch.
- Most of the states are slashing expenditures of other departments in order to meet COVID-19 exigencies.
- However, these measures have not addressed the underlying problem of liquidity and cash flow mismatches.

So, will the increase in the WMA limits help?

- There is a likelihood of the total government borrowings crossing Rs 20 lakh crore.
- So a WMA limit of Rs 120,000 crore for the Centre and Rs 51,560 crore for states may prove grossly insufficient.

What could be done further?

- **Centre** - The Centre may invoke Section 5(3) of its Fiscal Responsibility & Budget Management Act, 2003.
- This would allow the RBI to subscribe to the primary issues of Central Government securities under very specified grounds.
- Those cover, among other things, “act of war” and “national calamity”.
- **RBI** - It may undertake increased secondary market purchases and sales of central and state government securities.

Source: The Indian Express



IAS PARLIAMENT

Information is Empowering

A Shankar IAS Academy Initiative