# Ways and Means Advances

## Why in news?

RBI caped the limit of ways and means advances to Rs 1,50,000 crore for the first half of the financial year to address the poor cash management.

## What are Ways and Means Advances (WMA)?

- Ways and means advances are special features of the Indian economy.
- WMA are temporary advances given by the RBI to the Centre and state governments to tide over any mismatch in receipts and payments.
- It was introduced in 1997 and comes under Section 17(5) of the RBI Act of 1934.
- It was introduced to end the four-decade-old system of ad-hoc treasury bills to finance the central government deficit.
- States and Centre pay interest linked to the repo rate on WMA withdrawals.
- The government can avail of immediate cash from the RBI is required.
- But it has to return the amount within 90 days.
- Interest is charged at the existing repo rate.
- If the WMA exceeds 90 days, it would be treated as an overdraft (the interest rate on overdrafts is 2 percentage points more than the repo rate).
- WMA is not part of the Fiscal Responsibility and Budget Management Act (FRBM) because they get paid within the year itself.

## What are the features of ways and means advances (WMA)?

- **Short-term credit** - Provided by the RBI to both Central and State governments to bridge a temporary mismatch in their cash flows.
- The short term credit is a duration of 3 months.
- **Section 17(5) of the RBI Act 1934** - Contains provisions about the ways and means advances (WMA).
- **Not a resource** - WMA is not a resource to finance government expenditure.
- **WMA limits** - Currently fixed at Rs 1,50,000 crore for the first half of financial year 2024.
- **Repo rate** - The interest rate on WMA is repo rate which is 6.5%.
- **Overdraft (OD)** - When the WMA limit is crossed, the Central government enters into an overdraft (OD) which has to be cleared within 10 consecutive working days.
- The interest rate on OD is currently the repo rate plus 2%.
- **Formula-based with a committee approach** - Being followed for state government since 1999.
- Periodically an expert committee fixes the WMA limits and overdraft regulations for state governments.
- **Arbitrarily fixed** - WMA to the Central government is arbitrarily fixed in a non-

transparent manner by the Centre and the RBI.
- There is no defined process in the fixation of WMA limits to union government.

## What are the impacts of arbitrarily fixing the WMA?

- Lack of transparency.
- Lacks integrity of the interface between the monetary authority and the fiscal authority.
- Government's poor cash management.
- Mismatch in WMA (actuals) and Budget Estimates. In 2019-20, receipts for WMA (actuals) were Rs 11,79,582 crore as against Budget Estimates of Rs 5,00,000 crore.
- Weakens the integrity of the union budget.

## What is the need of the hour?

- **A new model** - Should be formulated which considers the actual data for the past three years of actual budgetary transactions in receipts and expenditure before fixing WMA limits.
- **Revenue deficit** - WMA should not be used as a resource to meet the revenue deficit.
- **Expert committee** - On the similar line of the State governments should be formed for fixing WMA limits and overdrafts.
- **Monetary limit** - On the overdraft facility should be fixed to address the poor cash management.
- **RBI press release** - Should explicitly provide the current position of availment of the overdraft.
- **Ensure data transparency** - The RBI and the government should consider publishing the WMA data along with the overdraft position in the RBI bulletin to ensure data transparency.

**Reference**

1. The Hindu Business Line | Ways And Means Advances

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