

Ways and Means Advances

Why in news?

RBI capped 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](#)