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

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