WMA for FY21

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The concept of WMA has been in news ever since the pandemic spread and the level of uncertainty in the economic space increased. While the loss of economic activity is known, the collateral impact on government finances is palpable. Lower growth means lower tax collections which in turn pressurizes a rather tightly formulated budget which was based on assumption of higher economic growth.

Now when revenue does not rise commensurately with expenditure there are two fallouts for the central government. First it is not in a position to transfer funds to the states as per what is budgeted. Second, the centre also finds it hard to meet its expenditure requirements which is more of a liquidity issue. This is where WMAs are important and there have been announcements made by the RBI in this context.

On 20th April the RBI had announced that in order to tide over the situation arising from the outbreak of the COVID-19 pandemic, it was decided, in consultation with the Government of India, that the limit for Ways and Means Advances (WMA) for the remaining part of first half of the financial year 2020-21 (April 2020 to September 2020) will be revised to ₹ 2,00,000 crore. Earlier it was announced to be Rs 1.2 lkh crore.

Further, RBI had announced an increase in the WMA limit of the States on April 1, 2020 as being 30% higher than the level on March 31. With a view to providing greater comfort to the States to undertake COVID-19 containment and mitigation efforts and enable them to better plan their market borrowings, it was decided on April 17th to increase the WMA limit of the States by 60% over and above the level as on March 31, 2020. The increased limit will be available till September 30, 2020.

What exactly are WMAs?

For centre

Until March 1997, RBI did not have any formalised system of WMA for the Centre. The issue of ad hoc treasury bills and their placement with the RBI automatically made up any shortfall in the Centre's minimum balance although limits were placed on net creation of ad hoc bills during the fiscal years 1994-95 through 1996-97. This asymmetry ended with the discontinuation of the ad hoc treasury bills from March 1997 and the announcement of specific WMA limits for the Centre for the two halves of the fiscal year. When 75 per cent of the limit for WMA is utilised by the Government, the Reserve Bank of India may trigger fresh floatation of market loans depending on market conditions.

For states

The RBI as the 'banker to the State Governments' provides financial accommodation to the States to tide over temporary mismatches in the cash flow of their receipts and payments as WMA. They are intended to provide a cushion to the States to carry on their essential activities and normal financial operations.

In addition to WMA, SDF (nomenclature changed from Special WMA in 2014) has also been in operation since April 1953. When the advances to the State Governments exceed their SDF and WMA limits, Overdraft (OD) facility is being provided.

Based on the recommendations of the Advisory Committee on Ways and Means Advances (WMA) Scheme for the State Governments, 2015 the RBI had revised the WMA scheme. The revised scheme for 2015-16 is as under:

- As per the revised formula, the WMA quantum works out to Rs 32,225 crore as against Rs15,360 crore for all the States.
- The WMA will generally be restricted up to a maximum of three months from the date of making the advance. The interest rate on WMA will be the repo rate.
    - In case WMA outstanding continues for more than three months from the date of such advance, a higher interest of repo rate plus one per cent will be charged.

The review of the limits by the next committee effective from 2020-21 considering the then fiscal positions of the States.

What are the levels recommended? (Rs cr)

Sl. No.	States	Existing Limit	Recommended Limit	% Increase
1	Andhra Pradesh	770.00	1,510.00	96.1
2	Arunachal Pradesh	97.50	195.00	100.0
3	Assam	450.00	940.00	108.9
4	Bihar	637.50	1,420.00	122.7
5	Chhattisgarh	285.00	660.00	131.6
6	Goa	97.50	170.00	74.4
7	Gujarat	945.00	1,915.00	102.6
8	Haryana	442.50	915.00	106.8
9	Himachal Pradesh	285.00	550.00	93.0
10	Jammu and Kashmir	472.50	880.00	86.2
11	Jharkhand	420.00	720.00	71.4
12	Karnataka	937.50	1,985.00	111.7
13	Kerala	525.00	1,215.00	131.4
14	Madhya Pradesh	690.00	1,600.00	131.9
15	Maharashtra	1,740.00	3,385.00	94.5
16	Manipur	90.00	195.00	116.7
17	Meghalaya	90.00	175.00	94.4
18	Mizoram	82.50	160.00	93.9
19	Nagaland	120.00	205.00	70.8
20	Odisha	450.00	985.00	118.9
21	Punjab	540.00	925.00	71.3
22	Rajasthan	757.50	1,630.00	115.2
23	Tamil Nadu	1,095.00	2,475.00	126.0
24	Telangana	550.00	1,080.00	96.4
25	Tripura	150.00	255.00	70.0
26	Uttar Pradesh	1,530.00	3,550.00	132.0
27	Uttarakhand	217.50	505.00	132.2
28	West Bengal	817.50	1,895.00	131.8
29	Puducherry	75.00	130.00	73.3
Total (All States)		15,360.00	32,225.00	103.7

For FY21, the total tax collection for the centre is to be Rs 24.23 lkh crore of which Rs 7.84 lkh crore is to be transferred to the states. Intuitively it can be seen that a shutdown for one month means less revenue collection on all fronts especially indirect taxes which include GST. This creates liquidity issues for the centre which is also not able to make the requisite transfers to the states and for the states where collections seem to lag. Hence recourse to such short-term funding would be more relevant under these conditions.

It is expected that the central government's borrowing programme of Rs 7.2 lkh crore will be exceeded this year on account of the fall in revenue and higher expenditure on relief. This will also mean that on a monthly basis there would be shortfalls in revenue vis-à-vis expenditure especially in the first 3 months where the Rs 1.7 lkh cr of additional relief expenditure is involved.

Therefore, for both the centre and states the WMA window will be very important to address issues of liquidity during the course of the year. The normal pattern of revenue flows will get distorted as the Relief package announced by the FM also provides scope for deferment of payments in the first quarter of the year. Such finance however is not relevant from the market perspective until such time the government is forced to issue securities as this is a direct transaction between the RBI and government.

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