REPORT

OF

THE INFORMAL ADVISORY COMMITTEE

ON

WAYS AND MEANS ADVANCES
TO
STATE GOVERNMENTS

RESERVE BANK OF INDIA

MUMBAI

NOVEMBER 1998

SECRET

November 25, 1998

The Governor
Reserve Bank of India
Mumbai.

Dear Sir,

Submission of Report of the Informal Advisory Committee

on Ways and Means Advances to State Governments

We submit herewith the Report of the Informal Advisory Committee on Ways and Means Advances to State Governments. We would like to place on record the outstanding assistance and contribution made by Dr. R.K.Pattnaik in the analytical work connected with the deliberations of the Committee and in the completion of the Report.

Yours faithfully,

(B.P.R. Vithal)
Chairman

(Dr. Ashok Lahiri)
Member

(Smt. Usha Thorat)
Member-Secretary

CHAPTER I
INTRODUCTION

Constitution of the Committee

1.1 On August 19, 1998, Dr. Bimal Jalan, Governor, Reserve Bank of India, constituted an ***Informal Advisory Committee on Ways and Means Advances (WMA),*** consisting of Shri B.P.R.Vithal, Member, Tenth Finance Commission, as the Chairman; Dr. Ashok Lahiri, Director, National Institute of Public Finance and Policy (NIPFP) as a member; and Smt. Usha Thorat, Chief General Manager, Internal Debt Management Cell, Reserve Bank of India as the Member Secretary. Dr. R.K. Pattnaik, Director and Shri M.G. Kelkar, Assistant Manager of the Internal Debt Management Cell, Reserve Bank of India were the resource persons.

1.2 The Committee was asked to look into the existing scheme of WMA to State Governments and to consider rationalisation – if warranted revision – of limits, keeping in view the needs of the State Governments as also the issues relating to fiscal and monetary management. While appointing the Committee, the Governor desired that the Committee might hold discussions with State Governments, Central Government and officers of the Reserve Bank of India to ascertain their views. It was expected that the Committee would complete the work and submit the Report within six to eight weeks.

Broad Approach of the Committee

1.3 The Committee in its first meeting at Hyderabad on August 19, 1998 discussed the existing structure of WMA to State Governments and the Central Government and the background in which the previous two revisions in 1993 and 1996 were made. The Committee also had preliminary discussions on various aspects relating to WMA and overdrafts, particularly, (a) the underlying fiscal stress, (b) difficulties in measuring a genuine temporary mismatch between receipts and payments as opposed to a deficit problem, (c) the asymmetry between the Central and the State Governments in respect of WMA limits, (d) feasibility of a ceiling on overdrafts, and (e) monetary implications of a revision in WMA limits.

1.4 The Committee met the Finance Secretaries of the State Governments (States) and officials of the Government of India (Centre), the Reserve Bank of India (RBI) and the Planning Commission. The schedule of these meetings is set out in ***Annexure 1.1***. A detailed questionnaire prepared and circulated to the States in order to facilitate the discussions with the Finance Secretaries of States is contained in ***Annexure 1.2***. A summary of the discussions with the Finance Secretaries is at ***Annexure 1.3***.

1.5 The RBI is a banker to both the Centre and the States and is compensated in terms of interest-free minimum balances maintained with it for the services it provides. In view of its responsibility for the conduct of monetary policy, the RBI is also required to ensure that both Centre and States operate within hard budget constraint. However, in this regard there is an asymmetry between the two, in terms of mobilising resources, particularly in respect of borrowings by the States in view of Article 293 of the Constitution. As a banker, the RBI has to provide reasonable amount of temporary advances to both to tide over their liquidity problems. The reconciliation of these conflicting needs of providing adequate temporary financing and of continuing a regime where fiscal discipline is maintained, as well as the difficulties of distinguishing between a temporary liquidity problem and a structural deficit problem, are the challenges, the RBI has to face while dealing with WMA.

Structure of the Report

1.6 The structure of the Report is as follows: ***Chapter 2*** gives the existing system of WMA, overdrafts and investment of surplus funds along with a historical review of the successive revisions in the WMA limits since 1937. ***Chapter 3*** analyses the trends in WMA and recourse to overdrafts by the States during fiscal 1997-98 and 1998-99 (April-October), and ***Chapter 4*** presents the recommendations.

CHAPTER 2
EXISTING SYSTEM OF WAYS AND MEANS ADVANCES, OVERDRAFT AND INVESTMENT OF SURPLUS FUND

Agreements with States : Main Provisions

2.1 A State entrusts its banking business to the RBI by voluntarily entering into an agreement under Section 21A of the Reserve Bank of India Act, 1934**.** Twenty-three States entered in to such agreements with the RBI to undertake general banking business in India, including payments, receipts, collection, remittance of money, management of public debt and issue of new loans. Two States – Jammu & Kashmir and Sikkim – have agreements with the RBI only for the limited purpose of managing their public debt. The RBI is not entitled to any remuneration for the conduct of ordinary banking business other than the advantages which may accrue to it from the holding of their cash balances free of obligation to pay interest thereon. Maintenance of such interest-free balances are subject to periodic agreements between the States and the RBI. The RBI advises the States about their daily cash balance at the close of each working day.

Ways and Means Advances

2.2 Under Section 17(5) of RBI Act, 1934**,** the RBI provides Ways and Means Advances (WMA) to the States banking with it to help them to tide over temporary mismatches in the cash flow of their receipts and payments. Such advances, are under the Act, "..repayable in each case not later than three months from the date of making that advance". There are two types of WMA – normal and special. While normal WMA are clean advances, special WMA are secured advances provided against the pledge of Government of India dated securities. The operative limit for special WMA for a State is subject to its holdings of Central Government dated securities upto a maximum of limit sanctioned. In addition, the RBI has determined limits for normal and special WMA for each State as multiples of the prescribed minimum balance required to be maintained with the RBI by that State. These limits have been revised periodically. The present limits, effective from August 1, 1996 and presented in ***Table 2.1***, work out to an aggregate of Rs.3,085.60 crore – Rs.2,234.40 crore (normal WMA) and Rs.851.20 crore (special WMA). At the time of the last revision in 1996, the ceilings for normal and special WMA were fixed at 168 times and 64 times of the minimum balance of Rs.13.30 crore, respectively.

2.3 The minimum balances and limits for WMA (at amounts equal to their respective minimum balances) of States were fixed for the first time on April 1, 1937. The limits were fixed on the basis of the ratio of their total revenue and expenditure to the corresponding total of the Centre prior to the introduction of provincial autonomy. The limits became effective from April 1, 1938, when the then provincial Governments became responsible for managing their own ways and means position. After the formation of the Part B States, in 1953, the minimum balances were revised in line with the growth in revenue receipts and expenditure in the intervening period. In the same year, the WMA limits were liberalised to twice the revised balances, and a special WMA facility against the pledge of Central Government securities was introduced for the first time. The special WMA was subject to a uniform Rs. 2 crore limit for each State. After 1953, in the two successive revisions in 1967 and 1972, the minimum balances were revised upwards as a multiple of the minimum balances fixed in 1953 and the WMA limits were liberalised by increasing the multiples of the revised minimum balances. From 1976 onwards, the minimum balances were not changed but the WMA limits were increased by increasing the multiple in successive revisions as indicated in ***Table 2.2.*** A brief account of the revisions in WMA limits since 1937 is set out in ***Annexure 2.1***.

Overdraft Regulation Scheme

2.4 Any amount drawn by a State in excess of WMA is an overdraft. As per the Overdraft Regulation Scheme, in force from October 2, 1985, no State was allowed to run an overdraft with the RBI for more than seven continuous working days. In case an overdraft appeared in the State's account and remained beyond seven continuous working days, the RBI and its agencies stopped payments on behalf of the State. On a further review of the Overdraft Regulation Scheme in 1993, the time limit for clearance of overdraft was increased from seven consecutive working days to ten consecutive working days with effect from November 1, 1993. This position continues.

2.5 At the instance of Governments of Assam and Manipur, RBI has agreed to a ceiling on their overdrafts at Rs.252 crore and Rs.10 crore, respectively. If this ceiling is exceeded even within a time frame of ten consecutive working days as stipulated under the Overdraft Regulation Scheme, the RBI suspends payments on behalf of these State Governments.

Monitoring of WMA Overdrafts and Enforcement of Stoppage of Payments

2.6 The position of WMA actually utilised and overdrafts of various States is closely monitored in the Internal Debt Management Cell (IDM Cell), RBI, on a daily basis on receipt of the position from Central Accounts Section (CAS), RBI, Nagpur. When a State avails of WMA in excess of ***75 per cent*** of the aggregate limit (aggregate = normal ***plus*** operative limit for special WMA), the State is cautioned to take remedial measures to avoid emergence of overdraft in its account. Whenever a State, after availing of normal and special WMA, emerges in overdraft, the IDM Cell conveys, by facsimile message, the position of its overdraft to the concerned State on a daily basis, with a request to clear it within a period not exceeding ten consecutive working days. If the account of a State continues to be overdrawn on the eleventh continuous working day, the RBI suspends payments on behalf of the State until the overdraft is cleared.

Interest Rate on WMA and Overdrafts

2.7 The interest rate charged on WMA and overdrafts at present are the Bank Rate (9 per cent) and the Bank Rate plus two percentage points (11 per cent), respectively.

Surplus Investments

2.8 The RBI acts as the sole agent for investment of the State's surplus funds. Surplus cash balance of a State beyond a level indicated by it is automatically invested in 14-day intermediate Treasury bills, on which, the rate of interest at present is 6 per cent. The States are also free to participate in 14-day and 91-day Treasury bills auctions as non-competitive bidders for investment of their durable surplus.

CHAPTER 3

ANALYSIS OF THE TRENDS IN WMA AND OVERDRAFTS

Growing fiscal stress

3.1 The use of WMA facility and emergence of overdrafts by States have become more frequent over time reflecting a persistent stress on liquidity management and the underlying structural imbalances in their finances. The continuing problems in the budgetary operations of the State Governments for 1998-99 have been described in the RBI Annual Report for 1997-98 (Paragraph 4.23, PP 63-66) as follows:

"A preliminary analysis of the consolidated budgetary position of twenty three State Governments reveals a rise in almost all the major deficit indicators. The deterioration in the State finances emanates from a lower growth of 14.6 per cent in revenue receipts in 1998-99 than that of 16.8 per cent in the previous year, and a sharp rise of 16.2 per cent in revenue expenditure on top of an increase of 17.4 per cent in 1997-98. As a consequence, there would be a marked rise in the revenue deficit to Rs.24,861 crore (1.5 per cent of GDP) in 1998-99 from Rs.19,053 crore (1.3 per cent of GDP) in the previous year. The widening of the revenue deficit would, in turn, cause the gross fiscal deficit (GFD) to go up sharply to Rs.56,660 crore (3.5 per cent of GDP) in 1998-99 from Rs.49,708 crore (3.5 per cent of GDP) in 1997-98……. The sharp rise in revenue expenditure in 1998-99 would be mainly on account of the additional burden emanating from the implementation of the Fifth Pay Commission awards and the rising interest burden." (***Table 3.1***).

3.2 During 1997-98, as set out in ***Table 3.2*** and ***Chart 3.1***, of the ***sixteen*** States that resorted to overdrafts, there were ***ten*** States which frequently resorted to overdrafts. Out of these ***ten*** States, ***five*** (Assam, Himachal Pradesh, Manipur, Mizoram and Nagaland) belonged to the special category, while the other five (Andhra Pradesh, Madhya Pradesh, Orissa, Punjab and Rajasthan) were in non-special category States. In three States (Assam, Manipur and Mizoram), payments were stopped as they could not clear their overdrafts with the RBI within the stipulated time limit of ten consecutive working days. The problem was quite severe in Assam, with payments being stopped on as many as eight occasions.

3.3 During the first seven months (April-October) of 1998-99, ***sixteen*** State Governments were in overdrafts with ***ten*** States taking frequent recourse (***Table 3.3*** and ***Chart 3.2***). Of these ten, five (Assam, Himachal Pradesh Manipur, Mizoram and Tripura) belonged to the special category and five (Andhra Pradesh, Madhya Pradesh, Orissa, Punjab, and Uttar Pradesh) were in the non-special category. In four States (Assam, Manipur, Mizoram and Nagaland), payments were stopped as they could not clear their overdrafts with the RBI within the stipulated time limit of ten consecutive working days.

3.4 The average levels of normal WMA, special WMA and overdraft availed by the States during fiscal 1997-98 are presented in ***Table 3.4 through 3.6*** and for the fiscal 1998-99 are set out in ***Table 3.7 through 3.9***. The peak levels are given for 1997-98 and 1998-99 in ***Tables 3.10 and 3.11***, respectively. A summary analysis of these tables indicates that during 1997-98, the peak level, on an average, was Rs.1,207 crore with variations of the peak between Rs.289 crore in June and Rs.2,337 in April. The peak level increased in the first seven months of 1998-99, with the peak varying between Rs.536 crore in May and Rs.2.660 crore in October and the average considerably higher at Rs.1,675 crore. State-wise position of permitted WMA limit

vis-a-vis maximum WMA and overdraft availed during 1997-98 and 1998-99 (April-October) is set out in ***Chart 3.3*** and **3.4**, respectively. Similar information in percentage terms is set out in ***Chart 3.5*** and ***3.6***, respectively.

3.5 Under the existing system of WMA and overdrafts, there is no requirement to vacate the WMA drawn/overdrafts at the end of the financial year. This has encouraged some States to use WMA and overdrafts as a resource and has also led to difficulties in distinguishing between a temporary mismatch between cash receipts and cash expenditure and a manifestation of the underlying structural deficit. In the above context, the amounts held by the States in the public account also assumes critical importance. It is pertinent to note that the States receive public account funds in a role as a banker. It is, therefore, important that these funds are not used for financing a fiscal deficit. The public account funds do, however, provide a cushion to tide over temporary liquidity mismatches.

Liquidity mismatch *vis-a-vis* the underlying structural deficit

3.6 A liquidity mismatch is by definition an ***ex ante*** concept and hence, difficult to estimate. A Government can only spend as much cash as it has. Thus, even when the ***desired*** expenditure is in excess of the available funds, the observed outflow will only be equal to the cash revenues, including loan proceeds. In the WMA context, when a State is not in overdraft and has fully utilised its WMA limit, the mismatch between inflows and outflows will appear to equal the WMA limit, but this does not indicate that the ***true*** mismatch was exactly equal to the limit. The observed mismatches are not, therefore, the indicators of true mismatches.

3.7 Cash flow problems are inevitable in day-to-day budgetary transactions. States without any deficit can and do face liquidity problems during the year. However, in the case of States with deficits, the problems get aggravated because it is difficult to distinguish between a genuine temporary mismatch and a mismatch arising out of a deficit. A deficit implies that receipts falls short of expenditure at the end of the year. More often than not, this year-end shortfall reveals itself during the course of the year.

3.8 If a State has shown in its Budget a year ending revenue deficit, this has to be covered by borrowings so that there is no overall budgetary deficit. States like the special category ones have a revenue surplus arising out of the fact that 85-90 percent of Central Assistance is by way of grants. Yet, both types of States have run into overdrafts. Furthermore, with borrowings financing revenue deficits, no distinction remains between revenue and capital receipts. With no capital asset generating income even to meet its interest liability, the distinction between revenue and capital expenditure has also disappeared. In such a situation the States have become insensitive to the costs of overdrafts. When a State remains in overdraft for such long periods as 200 days in a year, WMA becomes a resource and the overdraft becomes the WMA. The only difference is that the constraint is no longer a financial limit but a time limit. The peak level is no longer determined as a financial limit that can be brought down within the WMA limit within ten consecutive working days. The WMA, which was expected to be the safety net to bridge the gulf between the timing of receipts and payments becomes the safety net between two spells of overdrafts. The crux of the matter is, therefore, not WMA, but the elimination of overdrafts. With the progressive deterioration in the fiscal balances of States over the years, there is a concern that the WMA limit, which is to meet temporary liquidity mismatches, is being used as a resource. This problem gets exacerbated by the growing differences between the Budget Estimates, Revised Estimates and Accounts in the Budget.

3.9 After considerable deliberations, the Committee came to the conclusion that in a situation of pervasive deficit problem, the identification of true mismatches, as distinct from the underlying deficit problem, is one without any easy solutions. Furthermore, given the important role played by the WMA limits and overdraft regulation in the enforcement of a hard budget constraint, the optimum solution is to assume a less than proportionate growth in the mismatches relative to some suitable measure of transactions volumes.

Asymmetry between Central and State Governments

3.10 The problem of liquidity management of the Centre and State is similar. Both of them maintain minimum balances with the RBI and avail of WMA from the RBI to tide over the mismatches between their receipts and expenditure. The State Finance Secretaries pointed out that there are two important asymmetries in the system of minimum balances, WMA and overdrafts operated by the RBI with Centre on the one hand and the States on the other. First, 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 hocs*** during the fiscal years 1994-95 through 1996-97. This asymmetry has 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. Second, the WMA limits for the Centre are higher than those for the States taken together although the size of their budgets are roughly the same.

3.11 A straightforward comparison of the WMA of the Centre and the States, however, can be misleading. Almost as much as forty per cent of total Central Government revenues are passed on to the States as shared revenues, grants and loans through devolution and transfers under the dispensations of the Finance and the Planning Commissions. Furthermore, the Central Government also provides ***ad hoc*** grants as well as temporary WMA to States. The nature of transactions of the Centre are not exactly similar to those of States. Therefore, a complete similarity of treatment is not possible.

3.12 The Committee would, however, like to emphasise that given the undeniable fact that the Centre has greater scope for managing its liquidity problem, it should be in a position to set an example to the States. Furthermore, it is understood that RBI is considering a proposal to further lower the WMA limits and have Overdraft Regulation Scheme for the Centre which is more or less similar to the existing one for States, thus, removing the anomaly between the two. The Committee commends this for early implementation.

Limiting overdrafts

3.13 The problem of unauthorised overdrafts has gradually worsened over time. During 1997-98, as many as sixteen States got into such overdrawn position, and the average peak level of overdraft alone was Rs.474 crores. In the current year upto October 1998, the same number of States, i.e. sixteen, were overdrawn and the average peak level was Rs. 784 crore.

3.14 The WMA itself is an overdraft facility designed to help the States to tide over temporary mismatch as between revenues and expenditures. With the objective of freeing States which were prudent, from the problems of overdrafts WMA limits were repeatedly enhanced in the past. But, the problem of overdrafts has persisted. The success achieved has been limited on account of deterioration in the State finances and worsening financial management. A mere revision of WMA limits alone, therefore, is no remedy to the problem of overdrafts. With effect from November 1, 1993, the increase in time limit for clearing overdrafts from seven to ten working days as against fourteen days recommended by the Sarkaria Commission was granted to allow for delays in reporting transactions and arrange for funds for clearing overdrafts. This, however, resulted in some States being encouraged to remain in overdrafts for longer period. In this context what is required are improvements in the information system, smooth release of Central assistance to States and enhanced efficiency of the banking and payments system. Furthermore, what is of paramount importance is that the States ensure good financial management and discipline.

Monetary implications of WMA and overdrafts to States

3.15 It is important to recognise that enhancement of WMA limits increases the potential for their utilisation. Furthermore, utilisation of WMA – both normal and special – and overdrafts has monetary implications. WMA and overdrafts represent RBI credit to Governments. Even the special WMA, where the RBI provides money to States against their holdings of Central Government securities, signifies an inter-Government loan which gets replaced by RBI credit. WMA or overdraft should only provide ***intra-year*** liquidity support without making any resources available for financing a deficit at the end of the year. Nevertheless, Committee would like to underscore that the average level of the money stock or reserve money has its impact on prices and output in an economy, and persistent use of WMA or overdrafts during the year has a monetary impact.

3.16 In the above context, it may, however, be observed that all the States combined together have not contributed much to monetary expansion in the economy. According to the available information, at end-March 1998, RBI credit to Government (both Central and States) amounted to Rs.1,35,160 crore with credit to Central Government at Rs.1,33,617 crore and States accounted for only the residual Rs.1,543 crore. The latest data indicate that net RBI credit to States as on October 30, 1998 amounted to Rs.766 crore. Furthermore, during the past five years, the monetised deficit (i.e. loans given to the States by the RBI net of their deposits with RBI) of States has varied between Rs.16 crore (1995-96) and Rs.898 crore (1996-97). In aggregate the States did not have any monetised deficit in 1997-98.

CHAPTER 4
RECOMMENDATIONS OF THE COMMITTEE

4.1 The recommendations of the Committee, formulated in view of the discussions in the earlier chapter, are contained in the present chapter. They broadly relate to the rationale for revision in WMA, liberalisation of special WMA limits, stricter measures for regulating overdrafts, investment of surplus balances, and the need for complementary measures such as improvement in banking transactions.

RATIONALE

Base for Revision

4.2 Although for the reasons discussed in the earlier chapter, there is a continuing need to impose a hard budget constraint on all levels of Government and pursue prudent financial policies, growing need for financing temporary liquidity mismatches of States in line with the growing volume of transactions can not be denied. Fixing the WMA limits as multiples of an unchanged minimum balance, as in the past, does not capture the differing needs of the States in line with the different growth in their budgetary transactions. This has resulted in wide ***inter-State*** variations in the WMA limits in relation to the size of the Budget and this needs to be corrected.

4.3 WMA limits should normally be fixed taking into account (a) the cash flows, (b) the variation in the rate of flow of revenues and expenditure and consequent mismatches, and (c) the capacity of a State to raise resources on its own to cover such mismatches. Ideally, such an exercise should be done for each State and should be adjusted to seasonal conditions. However, with twenty three States, and different seasonal variations in different States, it is not practical to evolve any scheme taking all these factors into account. Furthermore, if the RBI has to deal with the WMA problems of States concurrently, taking all these factors into account, it would have to do so on the basis of its own judgement which could become arbitrary.

4.4 The WMA limits for States have, therefore, to be evolved on the basis of some general principle. This may also appear arbitrary, but, it will at least be transparent and will be known ***ex ante***. The RBI will have to provide a space within which legitimate mismatches can reasonably be expected to be handled. It should be the job of the financial manager, and not the RBI to fine tune flows of revenues and expenditures through the year within such space.

4.5 In view of the above, for fixing WMA limits, a logical surrogate for cash flows will be the total expenditure as a base. However, a justifiable fear has been expressed in the past that, linking of WMA limits to expenditure may provide an incentive for larger and more imprudent expenditures. The Committee has, therefore, modified this base so as to omit revenue deficit. Revenue expenditure minus the revenue deficit, which equals the revenue receipts, is the recommended base.

4.6 In the case of capital expenditure, similar consideration do not apply. Capital expenditure has to be matched by a revenue surplus or capital receipts. A revenue surplus financing capital expenditure is a welcome development. Borrowings by the States are regulated by the RBI and the Government of India. Therefore, till such time as the States have free access to the market, the risks involved in accepting revenue expenditure as a base would not apply to capital expenditure to the extent that it is within the approved borrowing programme. The Committee has accordingly adopted ***revenue receipts plus capital expenditure*** as the base. The impression gathered from the discussions with the Finance Secretaries was that none of them had objection to such a base.

Split Level of WMA

4.7 While discussing with the Finance Secretaries, the Committee noted that some of the Finance Secretaries wanted a split level of WMA, as had been determined in the case of the Centre. It was observed that the States do not have a regular seasonal pattern of this type in the mismatch of their revenues and expenditures. However, there are two periods in which they all seem to be facing an acute liquidity problem. One is in the month of April, in which pending bills spill over from the previous year. This problem is further accentuated by the fact that the releases from the Government of India come late in this month. The other period is later in the year when States made advance payments of salaries for major festivals; this period is also one in which there are natural calamities. At the time of major festivals, States disburse salaries in advance of the first of the next month which means that, generally in September or October, many States have two salaries to be paid in one month. This happens also at the time of Christmas in some north eastern States. Natural calamities can also create a difficult liquidity situation. This may be the monsoon season in some States, and the summer season in some others.

4.8 The Committee recognises these specific problems. However, there are practical difficulties in recommending a split level of WMA limit for such periods. At present, these situations are being met by the States by advance release of funds by the Government of India or by curtailment of other expenditures. If a higher WMA is available, the tendency will be to continue to draw the WMA at this higher level even thereafter. If, therefore, there has to be confining pressure on the States to meet such short-term exigencies by putting in efforts to mobilise resources within the existing budgetary allocations, it would be advisable not to have any split level of WMA. As it is, many of them are not taking the necessary prudent steps, like carrying balances in the calamity fund from good years for use in bad years, etc. The Committee has, therefore, not recommended any seasonal variations in WMA.

Special Category States

4.9 The Committee recognises that the special category States have problems of their own. They have a very small resource base which reduces their flexibility in planning receipts and expenditures. The Planning Commission and Finance Ministry of the Central Government fix most of the parameters. This existing small base of State resources can also be severely affected from time to time. The impact of seasonal conditions and natural calamities is even more severe in their case. In addition, these States have law and order problems. Furthermore, inaccessibility and terrain add to their problems. Therefore, the Committee has, in making its recommendations, dealt with their case separately.

REVISION OF WMA LIMITS AND LIBERALISATION OF SPECIAL WMA

Normal WMA

4.10 For the reasons discussed above, the Committee recommends the ***delinking of the WMA limits from the unchanged minimum balances***. The Committee recommends that the ***sum of revenue receipts and capital expenditure*** should be the base to which the WMA limits are linked.

Non-special Category States

4.11 For fixing the normal WMA limits for the fifteen non-special category States, the Committee adopted the following methodology :

a) The average of the total of revenue receipts and capital expenditure was calculated from the accounts for the years 1994-95, 1995-96, 1996-97, as published in the Budgets of the States. In non-tax revenues receipts, the receipts on lotteries were taken on a net basis.
b) Among these States, the maximum ratio of the existing normal WMA limit to the three year average worked out as at (a) above is 2.25 per cent for Goa.
c) The increase in normal WMA limits, when the ratio of 2.25 per cent is applied to the three year average of revenue receipts plus capital expenditure of the remaining States, is given in ***Table 4.1***.
d) The increase in the limits worked out at (c) above is the lowest for Goa (0 per cent), followed by Orissa (9.8 per cent), West Bengal (27.9 per cent) and Punjab (33.7 per cent). Given the problems of adjustment in the short run it was considered desirable that for no State the increase in normal WMA limit should be less than forty per cent over the existing limits.
e) In view of the above, the revised normal WMA limits the Committee recommends for the fifteen non-special category States as follows :

REVISED WMA
(Non-Special Category States)

(Rs. Crores)

Sl. No.	State	***Existing Normal WMA***	***Revised Normal WMA***
1.	Andhra Pradesh	168.00	288
2.	Bihar	117.60	189
3.	Goa	16.80	24
4.	Gujarat	117.60	243
5.	Haryana	50.40	99
6.	Karnataka	134.40	228
7.	Kerala	100.80	144
8.	Madhya Pradesh	134.40	232
9.	Maharasthra	252.00	483
10.	Orissa	100.80	141
11.	Punjab	100.80	141
12.	Rajasthan	100.80	202
13.	Tamil Nadu	184.80	281
14.	Uttar Pradesh	285.60	422
15.	West Bengal	168.00	235
	TOTAL	**2032.80**	**3352**

Special Category States

4.12 As discussed in the rationale, there is a case for giving special category States a more preferential treatment in view of their facing chronic problems of liquidity. In the case of non-special category States, the average ratio of existing normal WMA to the ***base*** worked out to 1.39 per cent and the ratio of the revised WMA to the ***base*** worked out 2.25 per cent. This represents an average increase of 62 per cent. In the case of special category States, the average ratio of the existing WMA to the ***base*** worked out to 1.70 per cent. Applying the same order of increase (62 per cent) as in the case of non-special category States, the revised ratio will work out to 2.75 per cent. The revised limits thus calculated, are set out in ***Table 4.2***. As may be seen from the ***Table 4.2*** by this method, the percentage increase for Meghalaya and Mizoram are 33.2 and 25.76, respectively. For the reasons given for the four non-special category States in para 4.10 above, and taking into account the peculiar problems of the special category States, the Committee recommends that as a transitional provision, the revised normal WMA for special category no State should be less than 50 per cent over the existing normal WMA. In view of the above, the Committee recommends the following revised normal WMA limits for the special category States.

REVISED WMA
(Special Category States)

(Rs. Crore)

Sl. No.	State	***Existing Normal WMA***	***Revised Normal WMA***
1.	Arunachal Pradesh	16.80	28
2.	Assam	67.20	114
3.	Himachal Pradesh	33.60	59
4.	Manipur	16.80	25
5.	Meghalaya	16.80	25
6.	Mizoram	16.80	25
7.	Nagaland	16.80	26
8.	Tripura	16.80	31
	TOTAL	**201.60**	**333**

Special WMA

4.13 Special WMA are secured advances and are provided against pledge of Government of India dated securities. Depending on the securities held by the States, operative limits for Special WMA are worked out. The operative limits at present are at a much lower level than the prescribed limit, indicating that the States have not invested even upto the present permissible limits for special WMA. Some of the Finance Secretaries were not keen on continuing these arrangements. The Committee is, however, of the view that a scheme which encourages the States to build up reserves in the shape of Government securities should not be discontinued only because the enthusiasm for it is lacking. If the States have to create sinking funds in the Budgets for purposes like natural calamities or even liquidating a part of their debt, such a scheme should continue and in fact should be liberalised to encourage such building up of reserves.

4.14 The Committee is of the view that while a formula based approach may be adopted in the case of normal WMA, special WMA may be liberalised. Thus, while the RBI may continue to assure the States special WMA at pre-specified terms and conditions upto the currently operating limits, the States should be eligible for additional special WMA against their holdings of Government securities over and above the current limits on terms determined and announced by the RBI from time to time.

Aggregate WMA

4.15 Taking in to account the normal WMA recommended at para 4.11 (for non-special category States) and at para 4.12 (for special category States) and the present prescribed limit for special WMA, the aggregate WMA limit is set out in Table 4.3.

OVERDRAFT REGULATION SCHEME – REVISION OF

4.16 With regard to the Overdraft Regulation Scheme, the Committee observes that the scheme is working well at present as a disciplinary mechanism. The Committee does not recommend any relaxation in this scheme. However, it is found that some States, which are persistently in overdrafts, are defeating the purpose of the scheme by so adjusting their finances that they clear the overdrafts within the time limit and again emerge into overdrafts. There are States that have remained in overdrafts for as many as 200 days in the year. There are also States which overdrew to a very large extent and in some cases beyond several times the WMA limits. Therefore, some measures are necessary to deal with such practices. Recognising this, the Committee recommends a ceiling on overdrafts as also a restriction on the number of days in aggregate that a State can be in overdraft.

4.17 The Committee makes the following recommendations on the ***Overdraft Regulation Scheme***.

i) No State shall be allowed to run an overdraft with the RBI for more than ***ten*** consecutive working days. In case the overdraft appears in the State's account and remains beyond ***ten*** consecutive working days, the RBI and its agencies shall stop payments on behalf of the State.

ii) No State shall be allowed to run an overdraft with the RBI for more than ***twenty*** working days during a quarter in the financial year. In case this limit is exceeded, the RBI shall stop payments irrespective of clause (i) above. The number of working days during which the payments have been suspended shall not be taken into account in calculating the ***twenty*** working days.

iii) For the above purpose, the financial year shall be divided into ***four*** quarters commencing on April 1, July 1, October 1 and January 1.

iv) The overdraft shall not exceed 100 per cent of normal WMA limit. On the first occasion that this is exceeded in a financial year the RBI shall advise the State that the overdraft amount should not exceed 100 per cent of normal WMA limit on any subsequent occasion. In this case clause (i) or clause (ii) is applied which ever is relevant.

v) Without prejudice to clause (i) above, if during the financial year, the amount of overdraft exceeds 100 per cent of WMA limit on a second or any subsequent occasion the State shall be given only ***three*** working days notice to bring down the overdraft amount within the level of 100 per cent of normal WMA limit. If this is not adhered to payments will be stopped.

INTEREST RATE ON WMA AND SURPLUS FUNDS

4.18 WMA is a short term loan for a period of ***three*** months. States should be encouraged to liquidate this loans within a period of ***three*** months without making WMA a source of financing. The fact that some States may have become insensitive to the cost of money *viz.*, rate of interest, so long as they are able to get over their liquidity problems, should not deter the institution of a rational regimen of interest rate as a centre piece of financial discipline. The Committee, therefore, recommends that the interest rate on WMA may be linked to the period for which it is drawn; and simultaneously States should be given some flexibility in the matter of investment of surplus funds.

IMPROVEMENT IN BANKING TRANSACTIONS

4.19 In course of the discussions it was pointed out by some Finance Secretaries that there are instances of delays in the banking system to credit the receipts of the States. The Committee, however, recognises that the delay in the banking system does not seem to have contributed to a WMA or overdraft problem. Nevertheless, there does seem to be inefficiency in the entire system of transferring funds which needs to be addressed. Therefore, the Committee recommends that the RBI may separately examine this issue in terms of technology development for improvement in banking transactions.

MARKET BORROWINGS

4.20 The Committee is of the opinion that utilisation of market borrowings as a triggering mechanism to tide over the WMA and overdraft problems may not be practicable at this stage as the borrowing programme for all States is managed together by the RBI. In the event of switching over to the auction system of borrowing, in future, the States may consider triggering the market borrowing when the WMA limit is continuously drawn and is likely to be overdrawn.

PATTERN OF RELEASE OF CENTRAL TRANSFERS AND DEVOLUTIONS

4.21 The Committee, in course of its discussion with the Finance Secretaries and Government of India officials observed that, by and large, the scheme of Central transfers and devolutions is working satisfactorily. The Committee is, however, of the opinion that in the case of special category States, where on an average the Central transfers and devolutions finance 85-90 per cent of the Budget of these States, it is for the Government of India to implement a pattern of release such that it reduces the mismatch problem of these States.

SPLIT LEVEL OF WMA

4.22 For the reasons discussed in Para 4.7 and 4.8, the Committee does not recommend any split level of WMA for the States.

REVISION OF MINIMUM BALANCE

4.23 Having delinked the WMA from the minimum balance and recommended linking it to the volume of transactions the Committee deliberated upon the issue of the minimum balance itself. The Committee felt that the minimum balance also should be revised and linked to the same base. This should ideally be done for both Centre and States. The minimum balance of the States has not been revised since 1976. In that year, the ratio of minimum balance to the budgetary transactions as represented by Revenue Receipts plus Capital Expenditure worked out to 0.11 percent as against 0.008 percent and non special category States and 0.010 percent for the special category States at present. Applying this same ratio 0.11 per cent to the present base the required minimum balance would work out to Rs.174 crore. The Committee recognised that it would be difficult to immediately revise minimum balances by this order of increase. The maximum ratio of present minimum balance to the budgetary transactions is 0.013 per cent for Goa (Mizoram amongst the special category states). The Committee recommends that twice this ratio i.e. 0.026 be adopted in the case of all States. On this basis, the minimum balance works out to Rs.37.97 crore for the non-special category States ***(Table 4.4)*** and Rs. 3.08 crore are for the special category States ***(Table 4.5)***. The Committee recommends that the RBI should revise the minimum balance as set out in ***Table 4.4*** and ***4.5*** in consultation with the States immediately.

ASSOCIATED MONETARY IMPACT

4.24 The recommended revision of normal WMA limits increases the potential liquidity that can be tapped by States for financing their liquidity mismatches. However, the overall liquidity impact of the measures recommended by the Committee has to factor in the new regime of overdraft regulation. The new regulations on overdrafts, together with the new and higher normal WMA limits, may be expected to diminish the severity as well as the frequency with which some States have resorted to overdrafts in the past.

4.25 For measuring the monetary impact of the revisions, the potential full use of the existing WMA limits with that of the suggested ones can be compared. This yields an estimated increase in high powered money to the extent of Rs.1,423 crore or 0.59 per cent. The actual use of WMA in the future and the intra year variations in the WMA that the States will draw is difficult to predict. However, it is clear that with the increased financial stress on State Governments, it is quite likely that there will be an increase in recourse to WMA by the States in the future. If the monetary impact is estimated based on the difference between the full use of WMA limits in the future and the actual utilisation in the past, the estimated increase in high powered money is Rs.3,274 crore or 1.36 per cent. These orders of increase in high powered money will have to be kept in view in considering the revision of the WMA limits.

FUTURE REVISION

4.26 The major thrust of the Committee was to rationalise the present system of WMA and overdraft to States. The exercise has been done on the basis that a logical and appropriate base for a revision of WMA is revenue receipts plus capital expenditure. However, it is not the intention of the Committee that the WMA should be automatically linked to this base and indexed accordingly. Upto certain limits the mismatches between receipts and expenditures should be managed within the existing WMA limits even when the volume of transactions goes up. The increase in volume does not automatically lead to an increase in mismatch. A review of WMA limits should be a periodic exercise and not an automatic one linked to any base.

4.27 Given the fact that Finance Commission recommendations affect the fundamentals of State finances and these recommendations have a normal validity of five years, there is a merit in synchronising WMA revisions with Finance Commission recommendations. In view of this, the Committee recommends that the revised limits should apply for the period covered by the recommendations of Eleventh Finance Commission.

TABLE 2.1: LIMITS FOR WAYS AND MEANS ADVANCES TO STATES WITH EFFECT FROM AUGUST 1, 1996

(Rs. Crore)

Sl. No.	State	Minimum Balance With the RBI	Normal (168 times of col.2.)	Special (64 times of col.2.)	Total (Col.3 + Col.4)	Special (operative limits)
	1	2	3	4	5	6
1.	ANDHRA PRADESH	1.00	168.00	64.00	232.00	32.00
2.	ARUNACHAL PRADESH	0.10	16.80	6.40	23.20	3.20
3.	ASSAM	0.40	67.20	25.60	92.80	12.80
4.	BIHAR	0.70	117.60	44.80	162.40	44.80
5.	GOA	0.10	16.80	6.40	23.20	2.51
6.	GUJARAT	0.70	117.60	44.80	162.40	15.91
7.	HARYANA	0.30	50.40	19.20	69.60	9.60
8.	HIMACHAL PRADESH	0.20	33.60	12.80	46.40	0.07
9.	KARNATAKA	0.80	134.40	51.20	185.60	25.60
10.	KERALA	0.60	100.80	38.40	139.20	11.40
11.	MADHYA PRADESH	0.80	134.40	51.20	185.60	25.60
12.	MAHARASHTRA	1.50	252.00	96.00	348.00	27.87
13.	MANIPUR	0.10	16.80	6.40	23.20	2.97
14.	MEGHALAYA	0.10	16.80	6.40	23.20	0.63
15.	MIZORAM	0.10	16.80	6.40	23.20	-
16.	NAGALAND	0.10	16.80	6.40	23.20	-
17.	ORISSA	0.60	100.80	38.40	139.20	19.20
18.	PUNJAB	0.60	100.80	38.40	139.20	38.40
19.	RAJASTHAN	0.60	100.80	38.40	139.20	37.12
20.	TAMIL NADU	1.10	184.80	70.40	255.20	35.20
21.	TRIPURA	0.10	16.80	6.40	23.20	-
22.	UTTAR PRADESH	1.70	285.60	108.80	394.40	108.80
23.	WEST BENGAL	1.00	168.00	64.00	232.00	64.00
	TOTAL	**13.30**	**2234.40**	**851.20**	**3085.60**	**517.68**

TABLE 2.2 : LIMITS FOR WAYS AND MEANS ADVANCES TO STATES

(Rs. Crore)

Date	Minimum balance Total for States	Ways and Means limits (expressed as a multiple of the minimum balance	
		Normal/Clean	Special/Secured
1	2	3	4
1. April 1, 1937 (effective April 1, 1938) Provincial Governments/Part A States)	Rs.1.95	1 (Rs.1.95)	$
2. April 1, 1953 (Part A and Part B States)	a) Rs.3.94 on Friday b) Rs.3.38 on days other than Friday c) Rs.4.50 before repayment of Ways & Means Advances	2 (Rs.7.88)	Rs.2.00 for each State
3. March 1, 1967	Rs.6.25	3 (Rs.18.75)	6 (Rs.37.50)
4. May 1, 1972	Rs.6.50 +	12 (Rs.78.0)	6 * (Rs.42.66)
5. May 1, 1976	Rs.13.0	10 (Rs.130.0)	10 (130.0)
6. October 1, 1978	Rs.13.0	20 (Rs.260.0)	10 (Rs.130.0)
7. July 1, 1982	Rs.13.0	40 (Rs.520.0)	20 (Rs.260.0)
8. October 1, 1986			
a) April-September	Rs.13.0	52 (Rs.6786.0)	20 (Rs.260.0)
b) October-March	Rs.13.0	48 (Rs.624.0)	20 (Rs.260.0)
9. March 1, 1998	Rs.13.30 **	56 (Rs.744.80)	20 (Rs.266.0)
10. November 1, 1993	Rs.13.30	84 (Rs.1,117.20)	32 (Rs.425.60
11. August 1, 1996	Rs.13.30	168 (Rs.2,234.40)	64 (Rs.852.20)

The figures in brackets in columns 3 and 4 are the total monetary limits for all the States.

$ Secured ways and means advances were occasionally granted on an ad hoc basis.

+ The increase of Rs.0.25 crore over the figure for 1967 was due to the fixation of minimum balances for four States *viz*. Himachal Pradesh, Manipur, Meghalaya & Tripura. There was no revision for other States.

* This represents the aggregate of actual limits, some of which were more and some less than six times the minimum balances.

** The increase of Rs.0.30 crore is on account of fixation of minimum balance for three States viz. Arunachal Pradesh, Mizoram and Goa.

TABLE 3.1 : BUDGETARY OPERATIONS OF STATES

A : Measures of Deficit of State Governments

(Rupees crore)

Year	Fiscal Deficit		Primary Deficit		Monetised Deficit *	Conventional Deficit	Revenue Deficit
	Gross	Net	Gross	Net			
1	2	3	4	5	6	7	8
1980-81	3,713	1,715	2,488	1,314	487	897	-1,485
1985-86	7,521	4,799	4,581	3,224	-1,862	-1,688	-654
1989-90	15,433	11,645	8,247	7,093	255	161	3,682
1990-91	18,787	14,532	10,132	8,280	420	-72	5,309
1991-92	18,900	15,746	7,956	10,123	-340	156	5,651
1992-93	20,892	15,770	7,681	6,497	176	-1,829	5,114
1993-94	20,596	16,263	4,818	5,210	591	462	3,812
1994-95	27,897	23,507	8,484	9,459	48	-4,468	6,156
1995-96	31,426	26,695	9,494	10,192	16	-2,615	8,201
1996-97@	36,167	32,313	11,450	15,519	898	6,733	15,555
1997-98 (RE)@	49,708	42,176	19,484	18,849	-1,936	3,256	19,053
1998-99 (BE)@	56,660	47,757	21,485	19,304	..	3,540	24,861
	As Percentage to GDP at Current Market Prices						
	GFD	NFD	GPD	NPD	MD	CD	RD
Average (1985-90)	3.1	2.2	1.7	1.6	-0.1	-0.1	0.3
1990-91	3.5	2.7	1.9	1.5	0.1	-	1.0
1991-92	3.1	2.6	1.3	1.6	-0.1	-	0.9
1992-93	3.0	2.2	1.1	0.9	-	-0.3	0.7
1993-94	2.5	2.0	0.6	0.6	0.1	0.1	0.5
1994-95	2.9	2.4	0.9	1.0	-	-0.5	0.6
1995-96	2.8	2.4	0.8	0.9	-	-0.2	0.7
1996-97@	2.8	2.5	0.9	1.2	0.1	-0.5	1.2
1997-98 (RE)@	3.5	3.0	1.4	1.3	-0.1	0.2	1.3
1998-99 (BE)@	3.5	2.9	1.3	1.2	-	0.2	1.5

RE Revised Estimates. BE Budget Estimates. - Negligible

.. Not Available. (-) Indicates Surplus.

* Data pertain to State Governments having accounts with the Reserve Bank of India.

@ Provisional data relate to the budgets of 23 State Governments including the National Capital Territory of Delhi

Note : 1. The monetised deficit of State Governments refers to loans given to them by the RBI net of their deposits with the RBI.

2. Additional Resource Mobilisation have been tentatively placed at Rs.2,428 crore in 1998-99 as per the budget structure. These have been included in Reserve receipts with the observe of detailed breakup.

B : Select Budgetary Variables of State Governments

(Per cent)

Item	1998-99$ (BE)	1997-98$ (RE)	1996-97$	1990-95 (Average)	1985-90 (Average)
1	2	3	4	5	6
1. GFD / GFD Expenditure	22.7	22.7	20.0	14.9	19.6
2. Revenue Deficit / Revenue Expenditure	11.4	10.1	9.7	5.6	1.9
3. Conventional Deficit / Aggregate Disbursements	1.4	0.4	3.5	-0.7	-0.6
4. Revenue Deficit / GFD	43.9	38.3	43.0	24.8	7.7
5. Non Dev. Exp. / Revenue Receipts	48.3	41.2	39.6	35.4	29.8
6. Interest Payments/Revenue Receipts	18.2	17.9	17.1	14.4	11.0
7. Developmental Exp. / GDP	9.4	10.4	9.8	11.4	11.9
of which					
Social Sector Exp. / GDP	5.9	6.2	5.5	6.2	6.6
8. Non Dev. Exp. / GDP	5.9	5.1	4.6	4.6	3.0
9. States' Tax Revenue/GDP	5.8	5.8	5.4	5.7	5.7
10.States' Non Tax Revenue / GDP	1.5	1.5	1.5	2.0	2.0

RE Revised Estimates. BE Budget Estimates.

$ Provisional Data relates to 23 State Governments including the National Capital Territory of Delhi.

(-) Indicates surplus. GFD Gross Fiscal Deficit

Non Dev Exp : Non-Developmental Expenditure.

Developmental Exp : Developmental Expenditure.

Source : Budget Documents of the State Governments and RBI Records.

TABLE 3.2 : MONTH-WISE OVERDRAFT AVAILED BY STATES

	1997-98	SUSPENSION
APRIL	AP[8, 9], ASM[14], GOA[2], HAR[4], HP[2], KAR[4], MANI[4, 8], MIZO[9], NAGA[7,3], ORSS[8, 2, 7], PJB[5], RAJ[9], WB[1, 1].	ASM
MAY	ASM[5], MANI[8], MIZO[2, 9, 5], NAGA[5], ORSS[9], WB[1].	
JUNE	ASM[1, 9], MANI[8, 3], MIZO[8, 7, 5].	
JULY	ASM[9], ORSS[1].	
AUGUST	ASM[6].	
SEPTEMBER	ASM[18], MANI[8], MIZO[4], PJB[1, 6, 1], RAJ[1, 3].	ASM
OCTOBER	AP[8], ASM[13], HP[1], MP[1], MANI[8, 1], MIZO[1], NAGA[5], ORSS[1], PJB[5, 4, 2, 1],RAJ[6, 8].	ASM
NOVEMBER	AP[7], ASM[18], GOA[1, 1,], HP[1], MP[1, 1], MANI[1, 9, 1, 1], MIZO[1, 8], NAGA[1], ORSS[9], PJB[1, 6], RAJ[2, 9, 8], WB[1].	ASM
DECEMBER	AP[9, 1, 2, 2], ASM[1, 16], GOA[6], MP[3, 2, 2], MANI[[6, 1], MIZO[[7, 1], ORSS[9, 1], PJB[8, 2, 3], RAJ[9], WB[2].	ASM
JANUARY	AP[8, 2], ASM[17], MP[1, 9, 1], MANI[8, 7], MIZO[4, 3, 1 1], NAGA[9], ORSS[9, 8], PJB[10], RAJ[6, 4], WB[1, 3].	ASM
FEBRUARY	ASM[13], MANI[9, 9], MIZO[7], NAGA[9], ORSS[9], RAJ[9, 2], TRI[1], WB[2].	ASM
MARCH	AP[10], ASM[18], HP[2], MP[9], MANI[18], MIZO[18], NAGA[9], ORSS[9, 1], PJB[10], RAJ[8, 2], UP[[2, 1].	ASM, MANI & MIZO

Note : Figures in brackets represent number of working days the States were in overdraft on each occasion.

ABBREVIATIONS

AP	ANDHRA PRADESH	MANI	MANIPUR
ARPR	ARUNACHAL PRADESH		MEGHALAYA
ASM	ASSAM	MIZO	MIZORAM
	BIHAR	NAGA	NAGALAND
GOA	GOA	ORSS	ORISSA
	HARYANA	PJB	PUNJAB
HAR		RAJ	RAJASTHAN
HP	HIMACHAL PRADESH		TAMIL NADU
KAR	KARNATAKA	TRI	TRIPURA
KER	KERALA	UP	UTTAR PRADESH
MP	MADHYA PRADESH	WB	WEST BENGAL
	MAHARASHTRA		

TABLE 3.3 : MONTHWISE OVERDRAFT AVAILED BY STATES

	1998-99	SUSPENSION
APR	ARPR[6], ASM[10], HAR[4], HP[6, 6], MANI[[17], MIZO[11, 1], NAGA[14, 6], PJB[7], RAJ[9, 2], TRI[3], WB[1].	MAN, MIZO,NAGA
MAY	ASM[1, 10], HP[[1, 2], KER[1], MANI[3], MIZO[16], PJB[4, 3], TRI[4].	MIZO
JUN	AP[9], ASM[18], MANI[4], MIZO[16], ORSS[9, 2], PJB[4, 9], TRI[3, 1, 4], UP[2].	ASM,MIZO
JUL	AP[3, 1, 3, 1], ASM[17], KER[7], MP[9], MANI[2, 10], ORSS[9, 1], PJB[9, 1, 5, 1], TRI[1, 7], UP[1, 4].	ASM, MANI
AUG	AP[7], ASM[16], PJB[1, 1, 3], TRI[5].	ASM
SEP	AP[10], ASM[15, 1], MP[8, 3], ORSS[9, 1], PJB[6, 9], RAJ[3 1], TRI[6], UP[5], WB[1].	ASM
OCT	AP[4], ASM[15], HP[4, 1], MP[9, 9], MANI[3, 2], ORSS[8], PJB[9], UP[9, 6].	ASM

Note : Figures in brackets represent number of working days the States were in overdraft on each occasion.

ABBREVIATIONS

AP	ANDHRA PRADESH	MANI	MANIPUR
ARPR	ARUNACHAL PRADESH		MEGHALAYA
ASM	ASSAM	MIZO	MIZORAM
	BIHAR	NAGA	NAGALAND
GOA	GOA	ORSS	ORISSA
	HARYANA	PJB	PUNJAB
HAR		RAJ	RAJASTHAN
HP	HIMACHAL PRADESH		TAMIL NADU
KAR	KARNATAKA	TRI	TRIPURA
KER	KERALA	UP	UTTAR PRADESH
MP	MADHYA PRADESH	WB	WEST BENGAL
	MAHARASHTRA		

TABLE 3.4 :AVERAGE NORMAL WMA AVAILED BY STATES (1997-98)

Sl. No.	State	Apr-97	May-97	Jun-97	Jul-97	Aug-97	Sep-97	Oct-97	Nov-97	Dec-97	Jan-98	Feb-98	Mar-98	**Average Total**
1		2	3	4	5	6	7	8	9	10	11	12	13	**14**
1.	ANDHRA PRADESH	127.64	9.90	-	-	-	-	73.15	117.12	131.04	109.69	90.13	107.83	**95.81**
2.	ARUNACHAL PRADESH	-	-	-	-	-	-	-	-	-	-	-	-	**-**
3.	ASSAM	53.76	35.85	43.62	31.36	37.20	55.89	50.42	55.82	56.36	51.91	55.80	53.93	**48.49**
4.	BIHAR	-	-	-	-	-	-	-	-	-	-	-	-	**-**
5.	GOA	4.05	-	-	-	-	-	3.16	9.76	6.76	0.52	-	2.66	**4.49**
6.	GUJARAT	-	-	-	-	-	-	-	-	-	-	-	-	**-**
7.	HARYANA	15.76	-	-	-	-	1.80	-	-	-	-	0.60	7.85	**6.50**
8.	HIMACHAL PRADESH	2.17	-	0.43	3.96	-	6.17	4.57	1.72	-	-	-	10.75	**4.25**
9.	KARNATAKA	63.21	-	-	-	-	-	-	-	-	-	11.59	36.52	**37.11**
10.	KERALA	-	-	-	-	-	-	-	-	0.59	1.34	8.71	46.17	**14.20**
11.	MADHYA PRADESH	-	6.26	18.70	32.40	-	18.48	8.68	39.32	92.73	92.02	27.90	75.94	**41.24**
12.	MAHARASHTRA	-	-	-	-	-	-	-	-	-	-	-	-	**-**
13.	MANIPUR	12.21	11.27	9.96	4.37	1.72	9.78	10.39	14.00	8.70	12.95	14.32	13.60	**10.27**
14 .	MEGHALAYA	-	-	-	-	-	-	-	-	-	-	-	-	**-**
15.	MIZORAM	8.14	13.65	13.26	5.72	1.01	5.83	8.81	10.34	10.27	11.94	9.31	13.43	**9.31**
16.	NAGALAND	11.65	1.63	-	-	-	0.85	6.07	1.31	-	9.46	11.46	9.95	**6.55**
17.	ORISSA	80.63	9.75	22.03	35.96	30.18	18.17	41.80	55.08	69.13	76.49	75.21	62.15	**48.05**
18.	PUNJAB	44.17	0.08	-	33.20	1.51	80.40	77.96	82.63	84.54	70.29	19.86	77.56	**52.02**
19.	RAJASTHAN	35.82	-	-	-	20.06	69.08	67.12	84.00	67.29	65.85	82.13	74.12	**62.83**
20.	TAMIL NADU	-	-	-	-	-	-	-	-	-	-	-	-	**-**
21.	TRIPURA	-	-	-	-	-	-	-	-	-	0.65	0.67	0.18	**0.50**
22.	UTTAR PRADESH	-	-	-	-	-	-	-	-	-	34.77	3.20	104.83	**47.60**
23.	WEST BENGAL	109.14	16.26	-	-	-	10.47	16.42	36.43	60.53	97.66	34.49	71.90	**50.37**
TOTAL		**568.35**	**104.65**	**108.00**	**146.97**	**91.68**	**276.92**	**368.55**	**507.53**	**587.94**	**635.54**	**445.38**	**769.37**	**384.24**

TABLE 3.5 : AVERAGE SPECIAL WMA AVAILED BY STATES (1997-98)

Sl. No. State	Apr-97	May-97	Jun-97	Jul-97	Aug-97	Sep-97	Oct-97	Nov-97	Dec-97	Jan-98	Feb-98	Mar-98	**Average Total**
1	2	3	4	5	6	7	8	9	10	11	12	13	**14**
1. ANDHRA PRADESH	21.12	-	-	-	-	-	8.26	10.23	26.05	16.04	1.60	13.52	**13.83**
2. ARUNACHAL PRADESH	-	-	-	-	-	-	-	-	-	-	-	-	**-**
3. ASSAM	8.89	4.07	5.64	4.54	4.40	9.69	8.16	9.66	9.73	9.49	8.69	8.67	**7.64**
4. BIHAR	-	-	-	-	-	-	-	-	-	-	-	-	**-**
5. GOA	0.33	-	-	-	-	-	-	0.08	0.69	-	-	-	**0.37**
6. GUJARAT	-	-	-	-	-	-	-	-	-	-	-	-	**-**
7. HARYANA	1.86	-	-	-	-	-	-	-	-	-	-	-	**1.86**
8. HIMACHAL PRADESH	-	-	-	-	-	-	-	-	-	-	-	0.02	**0.02**
9. KARNATAKA	4.87	-	-	-	-	-	-	-	-	-	-	-	**4.87**
10. KERALA	-	-	-	-	-	-	-	-	-	-	-	-	**-**
11. MADHYA PRADESH	-	-	-	-	-	-	-	2.28	10.94	12.24	-	9.91	**8.84**
12. MAHARASHTRA	-	-	-	-	-	-	-	-	-	-	-	-	**-**
13. MANIPUR	1.72	1.01	1.17	0.31	-	0.81	1.05	2.47	0.70	1.90	2.33	2.12	**1.42**
14 .MEGHALAYA	-	-	-	-	-	-	-	-	-	-	-	-	**-**
15. MIZORAM	-	-	-	-	-	-	-	-	-	-	-	-	**-**
16. NAGALAND	-	-	-	-	-	-	-	-	-	-	-	-	**-**
17. ORISSA	13.99	1.86	-	1.61	-	-	1.76	7.77	7.70	12.97	7.76	8.80	**7.14**
18. PUNJAB	5.25	-	-	-	-	22.88	13.18	18.64	29.29	21.31	-	20.62	**18.74**
19. RAJASTHAN	11.14	-	-	-	-	10.10	20.90	29.15	12.75	12.40	20.74	19.21	**17.05**
20. TAMIL NADU	-	-	-	-	-	-	-	-	-	-	-	-	**-**
21. TRIPURA	-	-	-	-	-	-	-	-	-	-	-	-	**-**
22. UTTAR PRADESH	-	-	-	-	-	-	-	-	-	-	-	10.36	**10.36**
23. WEST BENGAL	10.04	3.09	-	-	-	1.35	1.61	4.04	6.89	11.76	6.51	1.12	**5.16**
TOTAL	**79.21**	**10.03**	**6.81**	**6.46**	**4.40**	**44.83**	**54.92**	**84.32**	**104.74**	**98.11**	**47.63**	**94.35**	**52.98**

TABLE 3.6 : AVERAGE OVERDRAFT AVAILED BY STATES (1997-98)

Sl. No.	State	Apr-97	May-97	Jun-97	Jul-97	Aug-97	Sep-97	Oct-97	Nov-97	Dec-97	Jan-98	Feb-98	Mar-98	**Total**
1		2	3	4	5	6	7	8	9	10	11	12	13	**14**
1.	ANDHRA PRADESH	87.86	-	-	-	-	-	24.15	29.61	58.62	31.88	-	54.95	**47.85**
2.	ARUNACHAL PRADESH	-	-	-	-	-	-	-	-	-	-	-	-	**-**
3.	ASSAM	120.89	1.68	11.36	11.84	19.94	101.13	96.35	100.04	95.02	138.37	107.39	202.76	**83.90**
4.	BIHAR	-	-	-	-	-	-	-	-	-	-	-	-	**-**
5.	GOA	0.43	-	-	-	-	-	-	0.17	2.10	-	-	-	**0.90**
6.	GUJARAT	-	-	-	-	-	-	-	-	-	-	-	-	**-**
7.	HARYANA	6.12	-	-	-	-	-	-	-	-	-	-	-	**6.12**
8.	HIMACHAL PRADESH	27.19	-	-	-	-	-	0.17	0.66	-	-	-	79.68	**26.93**
9.	KARNATAKA	2.92	-	-	-	-	-	-	-	-	-	-	-	**2.92**
10.	KERALA	-	-	-	-	-	-	-	-	-	-	-	-	**-**
11.	MADHYA PRADESH	-	-	-	-	-	-	2.93	3.22	4.51	23.22	-	39.84	**14.74**
12.	MAHARASHTRA	-	-	-	-	-	-	-	-	-	-	-	-	**-**
13.	MANIPUR	9.00	3.23	3.28	-	-	2.58	2.92	10.02	3.94	4.57	8.07	11.97	**5.96**
14 .	MEGHALAYA	-	-	-	-	-	-	-	-	-	-	-	-	**-**
15.	MIZORAM	13.87	5.85	7.68	-	-	1.48	0.01	2.71	2.73	2.22	3.75	9.09	**4.94**
16.	NAGALAND	13.33	1.18	-	-	-	-	-	-	-	14.34	10.52	17.22	**11.32**
17.	ORISSA	61.04	6.44	-	0.14	-	-	0.11	12.43	16.84	42.39	33.30	20.80	**21.50**
18.	PUNJAB	14.37	-	-	-	-	7.32	17.25	13.42	19.11	63.25	-	22.86	**22.51**
19.	RAJASTHAN	157.63	-	-	-	-	3.51	34.99	82.18	36.54	22.83	29.69	39.79	**50.90**
20.	TAMIL NADU	-	-	-	-	-	-	-	-	-	-	-	-	**-**
21.	TRIPURA	-	-	-	-	-	-	-	-	-	-	-	-	**-**
22.	UTTAR PRADESH	-	-	-	-	-	-	-	-	-	-	0.31	4.18	**2.25**
23.	WEST BENGAL	6.73	1.94	-	-	-	-	-	0.04	0.76	29.76	3.15	-	**7.06**
TOTAL		**521.38**	**20.32**	**22.32**	**11.98**	**19.94**	**116.02**	**178.88**	**254.50**	**240.17**	**372.83**	**196.18**	**503.14**	**204.81**

TABLE 3.7 : AVERAGE NORMAL WMA AVAILED BY STATES, 1998-99 (APRIL-OCTOBER)

Sl. No. State	Apr-98	May-98	Jun-98	Jul-98	Aug-98	Sep-98	Oct-98	**Average Total**
1	2	3	4	5	6	7	8	**9**
1. ANDHRA PRADESH	-	-	50.40	116.43	102.77	23.57	53.70	**69.37**
2. ARUNACHAL PRADESH	8.76	0.41	-	-	-	-	-	**4.59**
3. ASSAM	54.20	47.62	53.55	48.07	49.11	58.20	53.48	**52.03**
4. BIHAR	-	-	-	-	-	-	-	**-**
5. GOA	0.55	-	-	-	-	-	-	**0.55**
6. GUJARAT	-	-	-	-	-	-	-	**-**
7. HARYANA	20.06	-	-	-	-	-	4.89	**12.48**
8. HIMACHAL PRADESH	21.25	12.21	-	4.60	3.35	0.96	11.07	**8.91**
9. KARNATAKA	-	-	-	-	-	-	-	**-**
10.KERALA	1.89	24.67	25.85	59.00	-	10.01	10.27	**21.95**
11.MADHYA PRADESH	-	-	7.94	82.53	62.40	-	108.39	**65.32**
12.MAHARASHTRA	-	-	-	-	-	-	-	**-**
13.MANIPUR	12.88	4.36	6.44	11.64	5.52	1.30	5.96	**6.87**
14.MEGHALAYA	0.51	-	-	-	-	-	-	**0.51**
15.MIZORAM	11.50	12.87	12.35	7.22	4.99	2.38	0.36	**7.38**
16.NAGALAND	9.89	-	-	-	-	-	-	**9.89**
17.ORISSA	25.81	68.07	68.07	73.25	44.31	27.58	36.89	**49.14**
18.PUNJAB	59.36	75.28	83.38	89.64	62.24	23.90	77.14	**67.28**
19.RAJASTHAN	60.05	-	-	-	42.00	18.50	13.08	**33.41**
20.TAMIL NADU	-	-	-	-	-	-	-	**-**
21.TRIPURA	3.43	4.03	6.41	6.24	4.06	2.24	-	**3.77**
22.UTTAR PRADESH	-	0.53	109.88	194.67	-	32.85	230.62	**113.71**
23.WEST BENGAL	42.37	-	-	-	-	19.76	-	**31.07**
TOTAL	**332.51**	**250.05**	**424.27**	**693.29**	**380.75**	**221.25**	**605.85**	**415.42**

TABLE 3.8 : AVERAGE SPECIAL WMA AVAILED BY STATES, 1998-99 (APRIL-OCTOBER)

Sl. No.	State	Apr-98	May-98	Jun-98	Jul-98	Aug-98	Sep-98	Oct-98	**Average Total**
1		2	3	4	5	6	7	8	**9**
1.	ANDHRA PRADESH	-	-	9.60	12.75	10.88	0.09	5.89	**7.84**
2.	ARUNACHAL PRADESH	0.75	0.81	-	-	-	-	-	**0.78**
3.	ASSAM	8.26	6.02	9.08	8.67	8.84	9.40	9.46	**8.53**
4.	BIHAR	-	-	-	-	-	-	-	**-**
5.	GOA	-	-	-	-	-	-	-	**-**
6.	GUJARAT	-	-	-	-	-	-	-	**-**
7.	HARYANA	5.84	-	-	-	-	-	-	**5.84**
8.	HIMACHAL PRADESH	0.04	0.01	-	-	-	-	-	**0.03**
9.	KARNATAKA	-	-	-	-	-	-	-	**-**
10.	KERALA	-	0.71	-	3.29	-	-	-	**2.00**
11.	MADHYA PRADESH	9.18	-	-	-	-	3.18	19.72	**10.69**
12.	MAHARASHTRA	-	-	-	-	-	-	-	**-**
13.	MANIPUR	2.28	0.30	-	1.69	0.50	-	0.85	**1.12**
14.	MEGHALAYA	-	-	-	-	-	-	-	**-**
15.	MIZORAM	-	-	-	-	-	-	-	**-**
16.	NAGALAND	-	-	-	-	-	-	-	**-**
17.	ORISSA	-	-	8.32	10.02	1.19	-	6.19	**6.43**
18.	PUNJAB	18.80	20.04	32.08	29.71	12.37	2.56	23.94	**19.93**
19.	RAJASTHAN	21.03	-	-	-	1.92	1.28	-	**8.08**
20.	TAMIL NADU	-	-	-	-	-	-	-	**-**
21.	TRIPURA	-	-	-	-	-	-	-	**-**
22.	UTTAR PRADESH	-	-	-	12.52	-	14.51	79.70	**35.58**
23.	WEST BENGAL	3.13	-	-	-	-	5.82	-	**8.95**
TOTAL		**69.31**	**27.89**	**59.08**	**78.65**	**35.70**	**36.84**	**145.75**	**64.74**

TABLE 3.9 : AVERAGE OVERDRAFT AVAILED BY STATES, 1998-99 (APRIL-OCTOBER)

Sl. No.	State	Apr-98	May-98	Jun-98	Jul-98	Aug-98	Sep-98	Oct-98	**Average Total**
1		2	3	4	5	6	7	8	**9**
1.	ANDHRA PRADESH	-	-	132.72	9.02	12.48	-	5.61	**39.96**
2.	ARUNACHAL PRADESH	1.06	-	-	-	-	-	-	**1.06**
3.	ASSAM	89.44	34.29	91.66	72.25	99.53	102.58	118.82	**86.94**
4.	BIHAR	-	-	-	-	-	-	-	**-**
5.	GOA	-	-	-	-	-	-	-	**-**
6.	GUJARAT	-	-	-	-	-	-	-	**-**
7.	HARYANA	3.32	-	-	-	-	-	-	**3.32**
8.	HIMACHAL PRADESH	106.62	0.36	-	-	-	-	-	**53.49**
9.	KARNATAKA	-	-	-	-	-	-	-	**-**
10.	KERALA	-	1.47	-	20.82	-	-	-	**11.15**
11.	MADHYA PRADESH	-	-	-	16.49	-	1.91	78.57	**32.32**
12.	MAHARASHTRA	-	-	-	-	-	-	-	**-**
13.	MANIPUR	53.90	3.60	-	2.71	-	-	2.90	**15.78**
14.	MEGHALAYA	-	-	-	-	-	-	-	**-**
15.	MIZORAM	36.94	21.58	24.80	-	-	-	-	**27.77**
16.	NAGALAND	53.40	-	-	-	-	-	-	**53.40**
17.	ORISSA	-	-	10.35	22.90	-	9.72	47.09	**22.52**
18.	PUNJAB	33.14	15.45	49.47	39.01	14.11	4.81	74.66	**32.95**
19.	RAJASTHAN	37.92	-	-	-	-	0.24	-	**19.08**
20.	TAMIL NADU	-	-	-	-	-	-	-	**-**
21.	TRIPURA	0.09	0.72	2.89	1.89	-	2.42	-	**1.60**
22.	UTTAR PRADESH	-	-	-	9.85	-	68.44	172.76	**83.68**
23.	WEST BENGAL	1.58	-	-	-	-	6.95	-	**4.27**
TOTAL		**417.41**	**77.47**	**311.89**	**194.94**	**126.12**	**197.07**	**500.41**	**260.76**

TABLE 3.10 : PEAK LEVEL OF WMA (NORMAL, SPECIAL, OVERDRAFT) AVAILED BY STATES 1997-98

Month	Normal Peak	Special Peak	Overdraft Peak	**Total Peak**
1	2	3	4	**5**
Apr-97	873.31	174.45	1410.89	**2337.39**
May-97	511.25	86.06	112.73	**694.22**
Jun-97	235.71	15.77	68.79	**289.22**
Jul-97	367.42	32.18	61.38	**460.98**
Aug-97	229.93	12.80	108.72	**341.09**
Sep-97	632.02	115.98	257.38	**839.56**
Oct-97	883.91	147.58	492.74	**1337.16**
Nov-97	883.91	170.28	669.84	**1439.56**
Dec-97	873.51	198.14	453.64	**1453.76**
Jan-98	970.95	205.95	778.63	**1908.03**
Feb-98	765.74	113.65	473.30	**1202.87**
Mar-98	1309.11	168.09	794.66	**2174.31**
Average Total	**711.40**	**120.08**	**473.56**	**1206.51**

TABLE 3.11 : PEAK LEVEL OF WMA (NORMAL, SPECIAL, OVERDRAFT) AVAILED BY STATES 1998-99

Month	Normal Peak	Special Peak	Overdraft Peak	**Total Peak**
1	2	3	4	**5**
Apr-98	630.88	161.72	1159.16	**1873.00**
May-98	311.20	58.56	222.13	**536.18**
Jun-98	875.40	135.68	1082.56	**1995.68**
Jul-98	979.05	185.42	460.75	**1577.96**
Aug-98	659.17	73.30	266.03	**943.27**
Sep-98	1117.88	229.15	893.38	**2140.09**
Oct-98	1023.27	236.80	1400.18	**2660.25**
Average Total	**799.55**	**154.38**	**783.46**	**1675.20**

TABLE 4.1: REVISED NORMAL WMA *vis-a-vis* THE EXISTING NORMAL WMA (NON-SPECIAL CATEGORY STATES)

(Rs. Crore)

Sl. No.	State	Minimum Balance	WMA Normal Existing	Revenue Receipts (AVG)	Capital Expenditure	Column 4 Plus Column 5	Column 3 Over Column 6 (In per cent)	**Revised WMA Normal 2.25% of Col. 6**	Column 7 Over Column 3 (In per cent)
	1	2	3	4	5	6	7	**8**	9
1.	ANDHRA PRADESH	1.00	168.00	9951.37	2834.67	12786.03	1.31	**287.69**	71.24
2.	BIHAR	0.70	117.60	7404.37	979.00	8383.37	1.40	**188.63**	60.40
3.	GOA	0.10	16.80	601.90	146.33	748.23	2.25	**16.88**	0.00
4.	GUJARAT	0.70	117.60	8672.80	2104.80	10777.60	1.09	**242.50**	106.20
5.	HARYANA	0.30	50.40	3573.73	824.27	4398.00	1.15	**98.96**	96.34
6.	KARNATAKA	0.80	134.40	8356.17	1766.37	10122.53	1.33	**227.76**	69.46
7.	KERALA	0.60	100.80	5337.83	1047.43	6385.27	1.58	**143.67**	42.53
8.	MADHYA	0.80	134.40	8761.33	1529.10	10290.43	1.31	**231.53**	72.27
9.	MAHARASHTRA	1.50	252.00	16941.73	4527.13	21468.87	1.17	**483.05**	91.69
10.	ORISSA	0.60	100.80	3917.80	1001.63	4919.43	2.05	**110.69**	9.81
11.	PUNJAB	0.60	100.80	4837.53	1150.93	5988.47	1.68	**134.74**	33.67
12.	RAJASTHAN	0.60	100.80	6721.67	2263.07	8984.73	1.12	**202.16**	100.55
13.	TAMIL NADU	1.10	184.80	10577.17	1918.57	12495.73	1.48	**281.15**	52.14
14.	UTTAR PRADESH	1.70	285.60	14499.33	4235.37	18734.70	1.52	**421.53**	47.59
15.	WEST BENGAL	1.00	168.00	7482.20	2068.03	9550.23	1.76	**214.88**	27.90
	TOTAL	**12.10**	**2032.80**	**117636.93**	**28396.70**	**146033.63**	**1.39**	**3285.76**	**61.43**

TABLE 4.2: REVISED NORMAL WMA *vis-a-vis* THE EXISTING NORMAL WMA (SPECIAL CATEGORY STATES)

(Rs. Crore)

Sl. No.	**States**	Minimum Balance	WMA Normal Existing	Revenue Receipts (AVG)	Capital Expendi-ture	Column 4 Plus Column 5	Column 3 Over Column 6 (In per cent)	**Revised Normal WMA (2.75 % of column 6)**	Column 7 Over Column 3 (In per cent)
	1	2	3	4	5	6	7	**8**	9
1.	ARUNACHAL PRADESH	0.10	16.80	722.60	278.60	1001.20	1.68	**27.53**	63.89
2.	ASSAM	0.40	67.20	3397.40	745.73	4143.13	1.62	**113.94**	69.55
3.	HIMACHAL PRADESH	0.20	33.60	1683.47	441.90	2125.37	1.58	**58.45**	73.95
4.	MANIPUR	0.10	16.80	697.30	221.37	918.67	1.83	**25.26**	50.38
5.	MEGHALAYA	0.10	16.80	648.23	165.57	813.80	2.06	**22.38**	33.21
6.	MIZORAM	0.10	16.80	611.13	155.93	767.07	2.19	**21.09**	25.56
7.	NAGALAND	0.10	16.80	760.23	203.17	963.40	1.74	**26.49**	57.70
8.	TRIPURA	0.10	16.80	902.50	216.37	1118.87	1.50	**30.77**	83.15
	TOTAL	**1.20**	**201.60**	**9422.87**	**2428.63**	**11851.50**	**1.70**	**325.92**	**61.66**

TABLE 4.3 : REVISED TOTAL WMA LIMITS OF ALL STATES

(Rs. Crore)

Sl. No.	States	Existing Normal WMA	Existing Special WMA	Existing Total (Col.2 + Col.3)	Revised Normal WMA	Total (Col.5 + Col.3)
	1	2	3	4	5	6
1.	ANDHRA PRADESH	168.00	64.00	232.00	288	352.00
2.	ARUNACHAL PRADESH	16.80	6.40	23.20	28	34.40
3.	ASSAM	67.20	25.60	92.80	114	139.60
4.	BIHAR	117.60	44.80	162.40	189	233.80
5.	GOA	16.80	6.40	23.20	24	30.40
6.	GUJARAT	117.60	44.80	162.40	243	287.80
7.	HARYANA	50.40	19.20	69.60	99	118.20
8.	HIMACHAL PRADESH	33.60	12.80	46.40	59	71.80
9.	KARNATAKA	134.40	51.20	185.60	228	279.20
10.	KERALA	100.80	38.40	139.20	144	182.40
11.	MADHYA PRADESH	134.40	51.20	185.60	232	283.20
12.	MAHARASHTRA	252.00	96.00	348.00	483	579.00
13.	MANIPUR	16.80	6.40	23.20	25	31.40
14.	MEGHALAYA	16.80	6.40	23.20	25	31.40
15.	MIZORAM	16.80	6.40	23.20	25	31.40
16.	NAGALAND	16.80	6.40	23.20	26	32.40
17.	ORISSA	100.80	38.40	139.20	141	179.40
18.	PUNJAB	100.80	38.40	139.20	141	179.40
19.	RAJASTHAN	100.80	38.40	139.20	202	240.40
20.	TAMIL NADU	184.80	70.40	255.20	281	351.40
21.	TRIPURA	16.80	6.40	23.20	31	37.40
22.	UTTAR PRADESH	285.60	108.80	394.40	422	530.80
23.	WEST BENGAL	168.00	64.00	232.00	235	299.00
	TOTAL	**2234.40**	**851.20**	**3085.60**	**3685**	**4536.20**

TABLE 4.4:RATIONALISATION OF MINIMUM BALANCE (NON-SPECIAL CATEGORY STATES)

(Rs. Crore)

Sl. No.	**States**	Minimum Balance	Existing normal WMA	Revenue Receipts Plus Capital Expenditure	Percentage (2 over 4)	**Revised Minimum Balance**	Revised WMA Normal
	1	2	3	4	5	**6**	7
1.	ANDHRA PRADESH	1.00	168.0	12786.03	0.0078	**3.32**	288
2.	BIHAR	0.70	117.6	8383.37	0.0083	**2.18**	189
3.	GOA	0.10	16.8	748.23	0.0134	**0.19**	24
4.	GUJARAT	0.70	117.6	10777.60	0.0065	**2.80**	243
5.	HARYANA	0.30	50.4	4398.00	0.0068	**1.14**	99
6.	KARNATAKA	0.80	134.4	10122.53	0.0079	**2.63**	228
7.	KERALA	0.60	100.8	6385.27	0.0094	**1.66**	144
8.	MADHYA PRADESH	0.80	134.4	10290.43	0.0078	**2.68**	232
9.	MAHARASHTRA	1.50	252.0	21468.87	0.0070	**5.58**	483
10.	ORISSA	0.60	100.8	4919.43	0.0122	**1.28**	141
11.	PUNJAB	0.60	100.8	5988.47	0.0100	**1.56**	141
12.	RAJASTHAN	0.60	100.8	8984.73	0.0067	**2.34**	202
13.	TAMIL NADU	1.10	184.8	12495.73	0.0088	**3.25**	281
14.	UTTAR PRADESH	1.70	285.6	18734.70	0.0091	**4.87**	422
15.	WEST BENGAL	1.00	168.0	9550.23	0.0105	**2.48**	235
	TOTAL	**12.10**	**2032.80**	**146033.62**	**0.0083**	**37.97**	**3352**

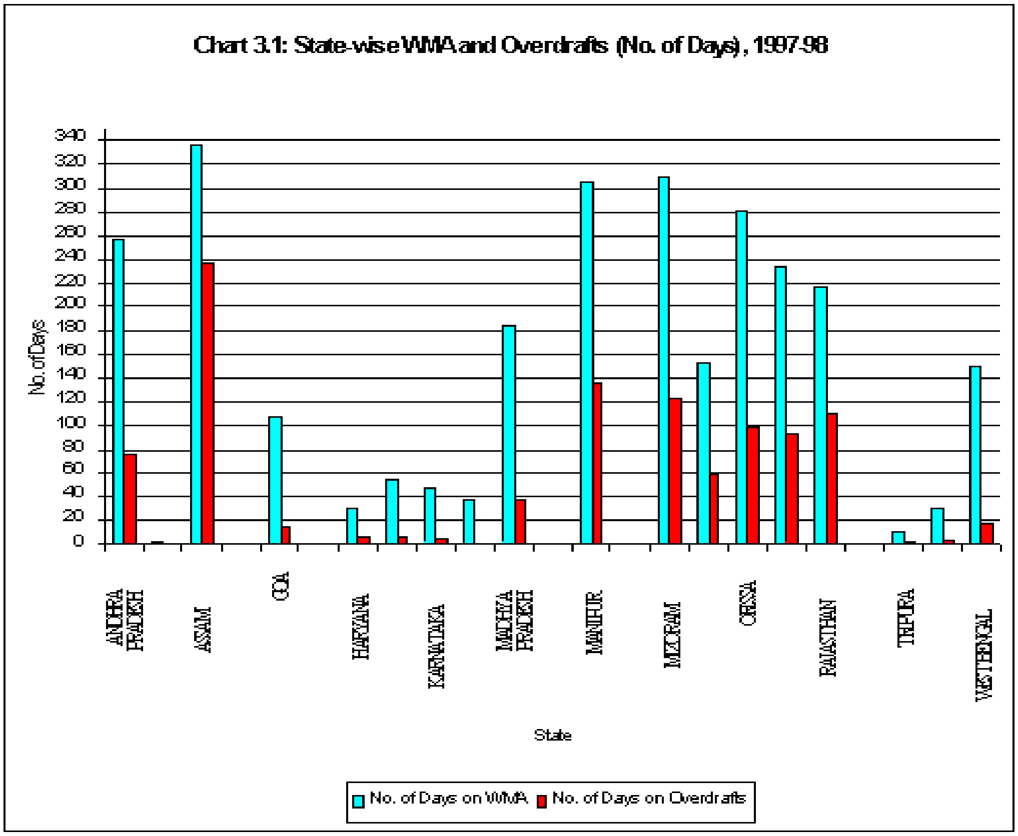


Chart 3.1: State-wise WMA and Overdrafts (No. of Days), 1997-98

TABLE 4.5:RATIONALISATION OF MINIMUM BALANCE (SPECIAL CATEGORY STATES)

(Rs. Crore)

Sl. No. States	Minimum Balance	Existing normal WMA	Revenue Receipts Plus Capital Expenditure	Percentage (2 over 4)	Minimum Balance	Revised WMA
1	2	3	4	5	6	7
1. ARUNACHAL PRADESH	0.10	16.8	1001.20	0.010	0.26	28
2. ASSAM	0.40	67.2	4143.13	0.010	1.08	114
3. HIMACHAL PRADESH	0.20	33.6	2125.37	0.009	0.55	59
4. MANIPUR	0.10	16.8	918.67	0.011	0.24	25
5. MEGHALAYA	0.10	16.8	813.80	0.012	0.21	25
6. MIZORAM	0.10	16.8	767.07	0.013	0.20	25
7. NAGALAND	0.10	16.8	963.40	0.010	0.25	26
8. TRIPURA	0.10	16.8	1118.87	0.009	0.29	31
TOTAL	**1.20**	**201.60**	**11851.51**	**0.010**	**3.08**	**333**

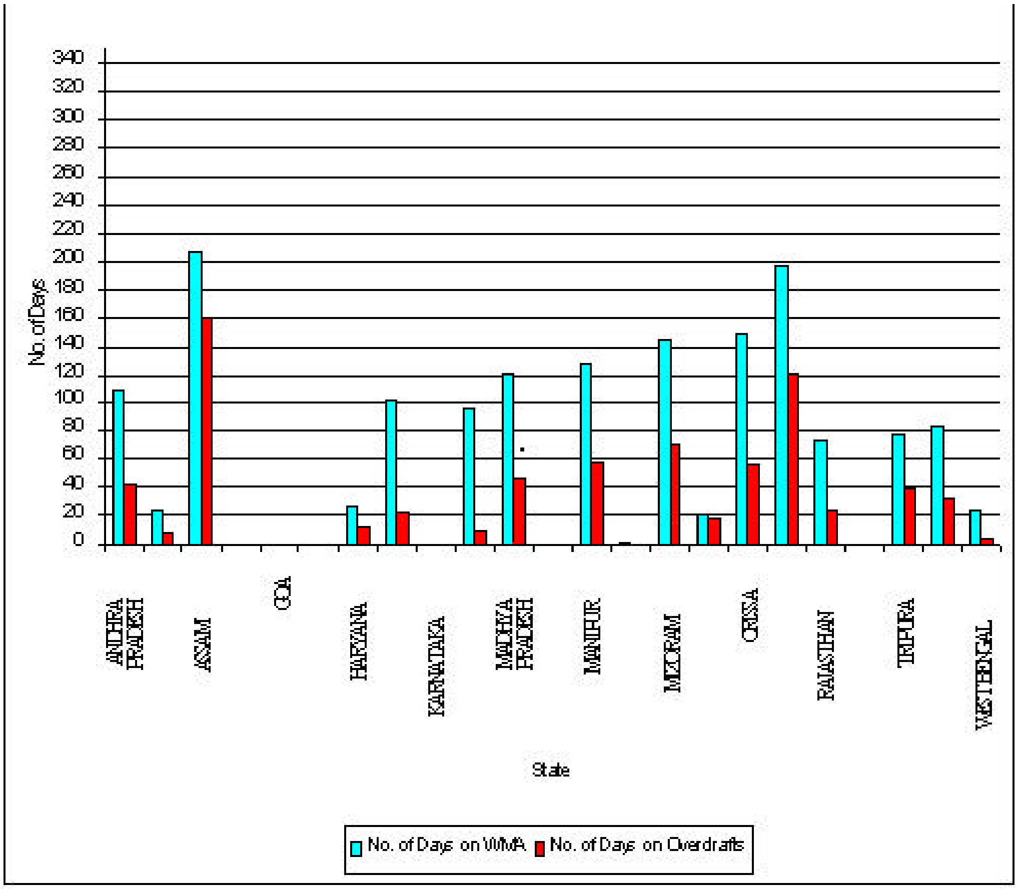
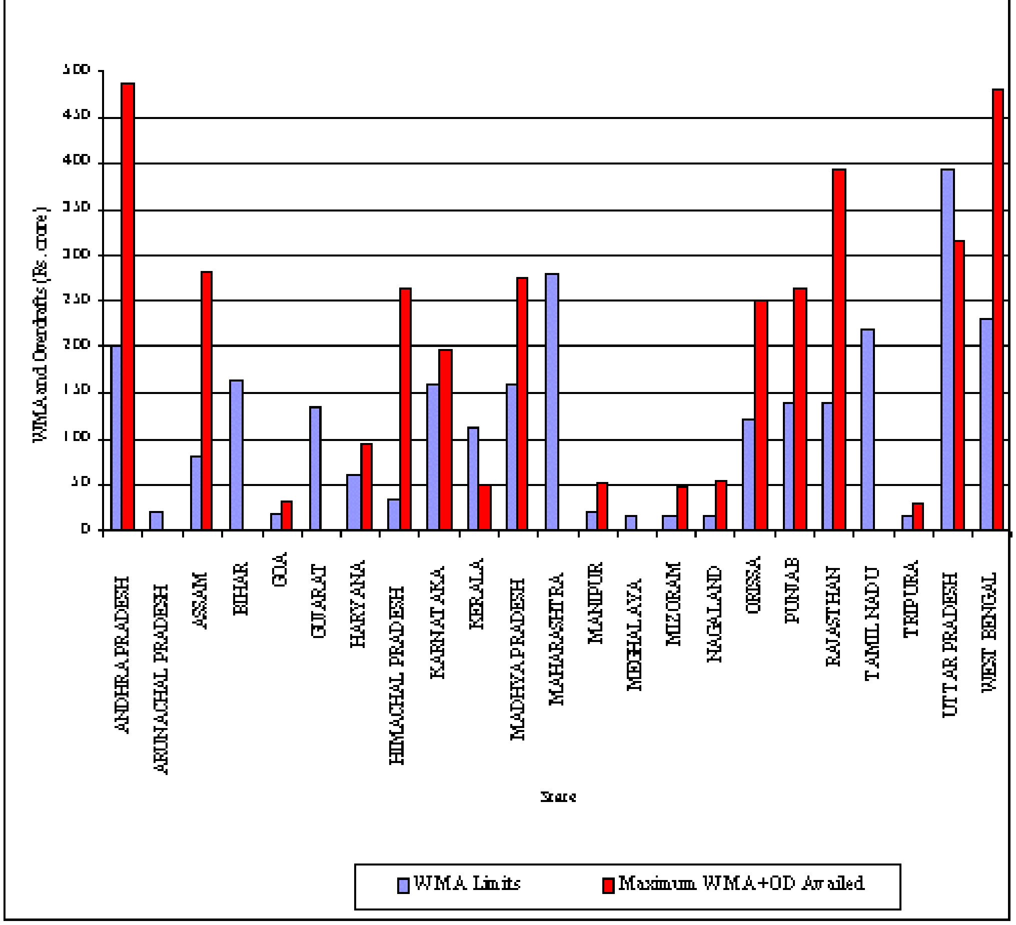


Chart 3.3: State-wise WMA Limits and the Maximum WMA and Overdraft Availed During 1997-98



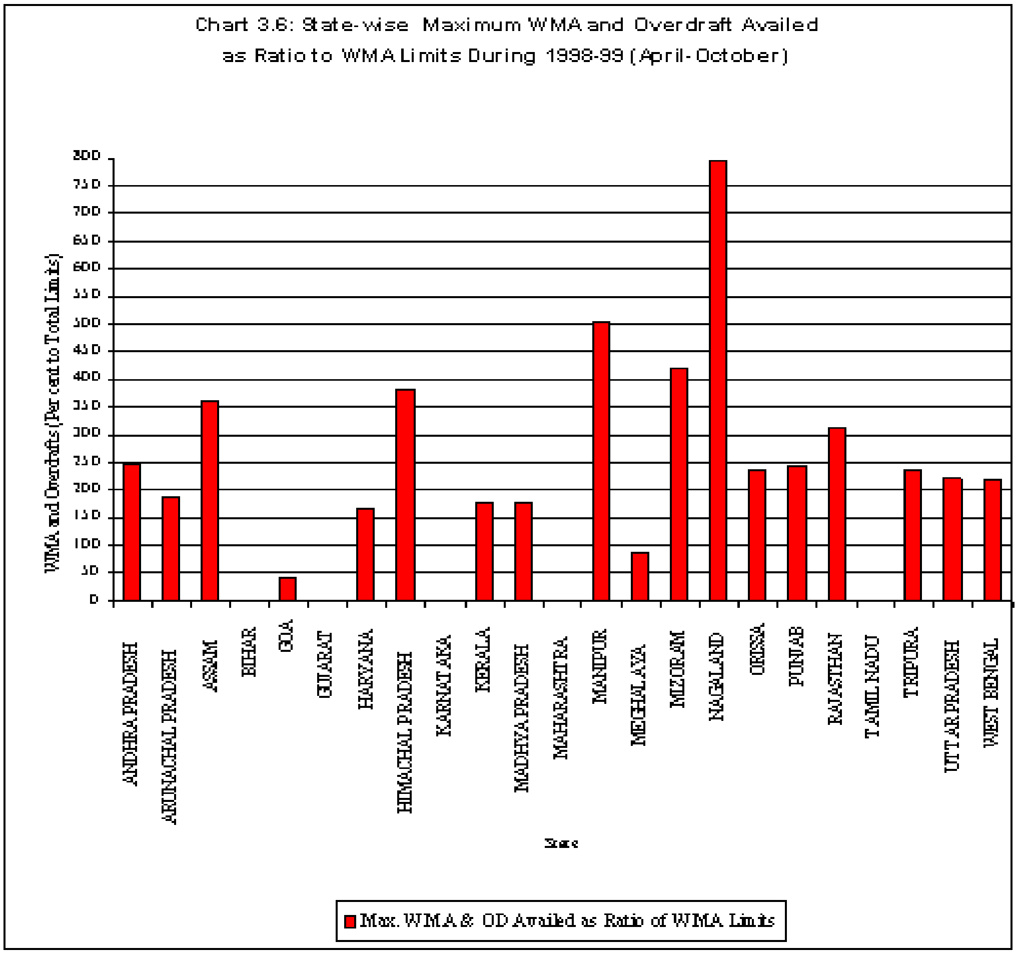


Chart 3.6: State-wise Maximum WMA and Overdraft Availed
as Ratio to WMA Limits During 1998-99 (April-October)
WMA and Overdrafts (Per cent to Total Limits)
800
750
700
650
600
550
500
450
400
350
300
250
200
150
100
50
0
ANDHRA PRADESH
ARUNACHAL PRADESH
ASSAM
BIHAR
GOA
GUJARAT
HARYANA
HIMACHAL PRADESH
KARNATAKA
KERALA
MADHYA PRADESH
MAHARASHTRA
MANIPUR
MEGHALAYA
MIZORAM
NAGALAND
ORISSA
PUNJAB
RAJASTHAN
TAMIL NADU
TRIPURA
UTTAR PRADESH
WEST BENGAL
State
Max. WMA & OD Availed as Ratio of WMA Limits

ANNEXURE 1.1

SCHEDULE OF THE MEETING OF THE COMMITTEE WITH FINANCE SECRETARIES AND OFFICIALS OF RESERVE BANK OF INDIA, GOVERNMENT OF INDIA AND PLANNING COMMISSION

Date	Place	Finance Secretaries/Officials
August 19, 1998	Hyderabad	First Meeting of the Committee.
September 3, 1998	Bangalore	Andhra Pradesh, Karnataka, Kerala and Tamil Nadu.
September 15, 1998	Delhi	Gujarat, Haryana, Punjab and Rajasthan; Government of India and Planning Commission.
October 1, 1998	Hyderabad	Meeting of the Committee with Dr. Y.V. Reddy, Deputy Governor, RBI.
October 6, 1998	Mumbai	RBI Officials and Shri S.S. Tarapore, former Deputy Governor.
October 7, 1998	Pune	Maharashtra.
October 14, 1998	Calcutta	Madhya Pradesh, Uttar Pradesh and West Bengal.
November 3, 1998	Delhi	Assam, Arunachal Pradesh, Meghalaya, Mizoram, Manipur, Nagaland and Tripura; Bihar and Orissa.
November 4, 1998	Delhi	Second meeting of the Committee
November 10, 1998	Mumbai	Third meeting of the Committee and Meeting with Dr. Y.V.Reddy, Deputy Governor.
November 11, 1998	Mumbai	Third meeting of the Committee and meeting with Dr. A.Vasudevan, Executive Director.
November 18, 1998	Chennai	Fourth meeting of the Committee.
November 24, 1998	Mumbai	Fifth meeting of the Committee.
November 25, 1998	Mumbai	Submission of the Report to Governor.

ANNEXURE 1.2

QUESTIONNAIRE SENT TO FINANCE SECRETARIES

1. Do you think there is a need for revision in the present Scheme for grant of WMA by RBI to State Governments? If yes, why?

2. If you think there should be a revision should it be by way of (a) increase in the limit on advances, if so by how much and what is the basis for suggesting this order of an increase and (b) the manner of arriving at fixing the limit?

3. Do you agree that WMA and the system of overdrafts are required essentially to meet the temporary mismatches in receipts and payments in the accounts of the State Governments?

4. In your view how should temporary mismatches be defined? What is the degree of co-relation between fiscal management (both in revenue and capital account) and liquidity management.

5. In your view what are the factors contributing to mismatches in the State Government’s accounts? Can you indicate the approximate weightage to each of the following factors (in percentage terms):

   (a) Seasons factors (Receipts being fairly regular whereas payments bunched to specific times)

   (b) Capital account transactions like large and lumpy repayments with no control over the timing of capital receipts such as borrowings.

   (c) Leads and lags in realisation of revenue receipts, particularly, tax receipts.

   (d) Any other factor, please specify.

6. Do you think that the minimum balances required to be maintained should be increased. If so, why?

7. Is your State in a position to clear WMA or does it frequently get into overdrafts? If yes, why?

8. Do you think there should be a cap on overdrafts in terms of amounts apart from the present limit in terms of number of days? If so, what should the cap be related to?

9. What is the manner in which your State normally clears the overdrafts?

10. Should there be a regular mechanism of invoking the State’s market borrowing programme, when the overdraft is nearing its limit in terms of number of days? If so, how can this be done expeditiously?

11. What is the manner of holding Public Account? Are these invested in identifiable assets or are they merged in the accounts? Are funds like Calamity Funds etc. kept separately or are they merged? What about Provident Funds?

12. How do you monitor the system of WMA and overdraft? What steps do you take when it exceeds the critical limits?

13. Should the interest rate on WMA and overdraft be related to size of overdraft and the time period of WMA?

14. What is in your view on general compatibility of the WMA system and arrangements for investment of temporary surpluses?

15. What steps do you suggest to improve quality of fiscal management, integrity of budget process, improve cash management and minimise mismatches?

ANNEXURE 1.3

VIEWS OF THE FINANCE SECRETARIES OF THE STATES

In order to ascertain the views of the States the Committee had its meeting with Finance Secretaries. All the Finance Secretaries participated in the discussion except Himachal Pradesh and Goa. The written replies to the questionnaire were received from **nine** non-special category States (Gujarat, Goa, Haryana, Karnataka, Kerala, Madhya Pradesh, Maharashtra, Orissa and Rajasthan) and **seven** special category States (Assam, Arunachal Pradesh, Manipur, Meghalaya, Mizoram, Nagaland and Tripura). In addition to the finance secretaries the Committee also met the officials of Government of India. Planning commission and Reserve Bank of India. The Committee also met Deputy Governor Dr. Reddy, Shri S.S. Tarapore, and Executive Director, Dr. A.Vasudevan. The major points discussed and the views of the Finance Secretaries are set out in the following paragraphs.

I. MAJOR POINTS DISCUSSED

The major points which were discussed were broadly based on the questionnaire as set out in ***Annexure 1.2***. These are as follows :

(i) WMA Limits

(a) Reasons for increase in WMA limits
(b) Basis for increase in WMA limits –
    (i) As a multiples of minimum balance or any other indicator
(c) Abolition of special WMA
(d) Publication of data on WMA and overdraft

(ii) Mismatches in receipts and payments
Definition and measure to minimise

(iii) Issues relating to overdraft

(a) Cap on overdraft
(b) Period of overdraft
(c) Interest on overdraft
(d) Clearing mechanism of overdraft by State Governments
(e) Triggering of market borrowing mechanism to tide over repetitive and chronic overdraft.

(iv) Surplus investment by State Governments

(v) Fiscal management and integrity of budget making

(a) Year-end revenue deficit
(b) Appropriation of public account
(c) Deviation in revised estimate and accounts

II. VIEWS OF FINANCE SECRETARIES

While each Finance Secretary emphasised the special problems of his own State, there was a consensus in the views expressed by them on most of the above issues.

(i) WMA Limits

(a) Increase in WMA Limits

The Finance Secretaries were unanimous in asking for an increase in the WMA because of an increase in the volume of transactions in the last three years. All of them also mentioned the pay revision commitment as a special reason for increasing the size of WMA. When it was put to them that the basic issue was finding the resources for it and that an increase in the WMA could not be a solution, they either tacitly or even expressly agreed. But their point was that payment of salaries was an important reason for periodic mismatches during the year and that the size of this mismatch would go up with the salary bill going up as a consequence of pay revision. Taking this factor into account many of them wanted a 100 per cent increase in the WMA. Some, however, agreed that the increase should be at least to the extent of the increase in the size of the budgets since 1996.

(b) Minimum balances and the basis for increase in WMA Limits

Most of the Finance Secretaries did not see the need for revising the minimum balances. They agreed that if these balances were not revised, then the previous approach of fixing WMA as a multiple of these balances have to be changed in order to deal with ***inter-State*** disparities. When it was pointed out that if this was done and the revision of WMA was linked to some other factor, the revised WMA may not be a uniform multiple of the existing one they had no objection provided every State got an increase over its present WMA.

The Finance Secretaries were agreed that if WMA was dislinked from the minimum balances it should be linked to the size of the budget, viz., aggregate expenditure plus aggregate receipts. When it was explained that this would mean linking the WMA to the revenue deficit also, they seemed to appreciate the logic but would not readily concede the conclusion.

(c) Abolition of Special WMA

Most of the Finance Secretaries did not see the need for continuing the facility of special WMA. However, when it was explained that the special WMA was meant to be an incentive for prudent States to retain their securities and invest the balances in their funds in such securities, they had no objection to its continuance provided the normal WMA was increased to the extent necessary on other considerations.

(ii) Issues relating to overdrafts

(a) None of the Finance Secretaries had any objection to the present disciplinary regimen in regard to overdrafts. However, they were of the view that a monetary ceiling on overdrafts was not feasible. Their point was that such a ceiling could have been considered if the overdrafts could be anticipated or if they were planned overdrafts. According to them, the overdrafts that were now occurring were because of unforeseen circumstances and, therefore, it could not be said what could be a proper cap on them.

(b) Some Finance Secretaries wanted the period to be increased from 10 to 14 days as recommended by the Sarkaria Commission. In this connection, they pointed out that part of the reason for the overdrafts was delays by the banks in crediting their receipts. Some even alleged that such delays were partly deliberate so as to give the bank an advantage in holding the balances for some more days. Some other Finance Secretaries felt that there was no such discriminatory delay but there were delays in the booking of both receipts and expenditures and that, therefore, it would help if the period was extended.

(c) Interest on Overdraft

The Finance Secretaries stated that, as mentioned earlier, it was unforeseen circumstances that pushed the States into overdrafts. At such times the cost of interest would be of no consequence since what was required was to somehow get the resources to get out of the overdraft. Therefore, they felt that a higher rate of interest may not prevent overdrafts, though it may make the disciplinary regimen stricter.

(d) Clearing mechanism of overdrafts by State Governments

The Finance Secretaries explained that overdrafts usually occur either due to more than the usual bunching of expenditure or unusual delays in adjustment of Central assistance. April, for instance, was a month in which overdrafts would occur because pending bills spill over from March and there are no receipts from the Centre Government during this month. Similarly, in some festive seasons two monthly salaries are disbursed in the same month. At such times States try to meet the situation by stopping all other payments. They also make a special effort to get advances released by the Central Government against amounts due to them later in the year.

(e) Triggering of market borrowing mechanism to tide over repetitive and chronic overdrafts

Reacting to the above suggestion the Finance Secretaries opined that this may not be a feasible solution as the borrowing programme was completed for most of the States in the first tranche itself.

(iii) Surplus Investment by States

The Finance Secretaries argued that the rate of return on their surplus investment was lower than the WMA rates and that, therefore, the rate on their surplus investments should be increased.

Fiscal Management and Integrity of Budget

(iv) The Finance Secretaries explained that, unlike the Centre, the States can not run a budgetary deficit at the end of the year. Therefore, if there was a revenue deficit it would have to be covered by diversion of capital receipts. Since the budget was, in this sense, balanced at the end of the year WMA and overdrafts were, in a real sense, due to mismatches during the year and could not be considered a method of financing deficits.

When it was pointed out that in the case of some States the deviation between accounts and even revised estimates was large they conceded that the role and discipline of the budgetary mechanisms in good fiscal management was compromised in such cases.

ANNEXURE 2.1

MINIMUM BALANCES AND WAYS AND MEANS ADVANCES TO THE STATES : A HISTORICAL REVIEW

In terms of the agreement between the RBI and States, the latter have to maintain with the Bank such minimum balances as may be agreed upon from time to time and the Bank grants Ways and Means advances to the State Government up to certain limits. The minimum balances and limits for Ways and Means advances of State Governments were fixed for the first time on **April 1, 1937** and this became effective only from **April 1, 1938** when the then provincial Governments became responsible for managing their own Ways and Means position. The minimum balances were fixed in 1937 on the basis of the ratio in which the total revenue and expenditure of the pre-provisional autonomy Central Government. The Finance and Revenue Accounts of the three years 1931-32 to 1933-34 were considered for this purpose. The minimum balances so fixed also represented the limits up to which States could avail themselves of Ways and Means advances from the RBI. This position continued up to 1953.

1953 Revision

The minimum balances were found to be inadequate by the Bank in 1953 on the basis of the revenue and expenditure of State Governments. The State Governments had also availed of Ways and Means advances considerably in excess of the prescribed limits to meet the gap between revenue and expenditure. A revision of the minimum balances and Ways and Means limits was, therefore, undertaken in 1953. The basis which was adopted for arriving at the revised minimum balances was as under:-

(i) The minimum balances of Part A States, fixed in 1937, were increased by the ratio of the increase in the total amount of the average revenue and expenditure charged to revenue in the years 1948-49 to 1950-51 to the total amount of revenue and expenditure charged to revenue in the three years 1931-32 to 1933-34.

(ii) The minimum balances of Part B States were similarly arrived at on the basis of the revenue and revenue expenditure in the two years 1949-50 and 1950-51.

(iii) The total minimum balances on this basis amounted to Rs.8.70 crores as against a sum of about Rs.2 crores stipulated earlier. In order to avoid any strain on the resources of States, it was decided that the minimum balances instead of being increased approximately by four times to Rs.8.70 crores should roughly be doubled so as to increase the total for all the States to about Rs.4.00 crores. This was made effective from April 1, 1953.

The limits for Ways and Means advances were also liberalised for the first time with effect from April 1, 1953 and were fixed at twice the minimum balance. An additional limit of Rs.2.00 crores against the pledge of Central Government securities was also granted to each State as special or secured advances over and above the clean advances. This limit was not rigorously enforced and special advances in excess of Rs.2 crore were on occasions granted.

The minimum balances fixed in 1953 were modified at the time of reorganisation of the States but no major changes were made.

1967 Revision

In the lights of the discussions at the Conference of Chief Ministers in July 1966 on the question of preventing unauthorised overdraft by States in their accounts with the Bank, the issue of revision of minimum balances and Ways and Means advances of States came up. It was considered neither necessary nor appropriate to relate the minimum balances of State Governments or the limits to them for ways and Means advances to their revenue or revenue and expenditure as was done till 1953 for the following reasons :-

(i) The revenue budgets were inflated because of the accounting changes introduced in two stages in April 1961 and 1962.

(ii) The States were assured of a stable and certain income throughout the year in view of the arrangements for payment to them of their share of tax collections, statutory grants in convenient instalments and grant of advances against Plan schemes in instalments beginning from April of every year.

(iii) With the formation of autonomous corporations for generation and distribution of electricity and road transport, the States were relieved of their responsibility for meeting the revenue deficits or capital expenditure of these undertakings and this was expected to reduce the need for borrowings by States.

(iv) States were borrowing from commercial banks against stocks of food grains and other commodities and also from LIC and the support from these sources was considerable.

A new formula for the determination of minimum balances and the limits for Ways and Means advances was, therefore, devised on the following basis :-

The total of minimum balances required to be maintained with RBI by all the States was increased in the ratio in which the total notional pre-decentralisation minimum balance of the Government of India increased during the period 1937 to 1967. As the working balance of the Central Government with RBI had increased from Rs.10 crore in 1937 to Rs.50 crores in 1967, the States' balances with RBI as fixed originally in 1937 were also increased to five times the original figure. The total balances of all the States which worked out to Rs.1.85 crores in 1937 were notionally fixed at Rs.2.54 crores consequent on reorganisation of the States. The total minimum balances of State Governments based on the above formula were, therefore, increased to Rs.12.70 crore in 1967 and then the amount was distributed to the States in the proportion of the revenue and expenditure charged to revenue of each State to the revenue and expenditure charged to revenue of all States together (according to actuals for the year 1964-65). It was not, however, considered realistic to increase the minimum balances of States from about Rs.4 crores to Rs.12.70 crores immediately. The minimum balances were therefore immediately raised to Rs.6.25 crore (half of Rs.12.70 crores after rounding off to the nearest five lakhs in the case of each State) with effect from March 1, 1967. It was also decided that the limit for clean and unsecured Ways and Means advances should continue to be related to the level of minimum balance. The limit was revised from twice the minimum balance to three times the minimum balances. As regards the limit for secured Ways and Means advances against the pledge of Government of India securities, it was decided that this should be revised to twice the level of normal Ways and Means advances. As a result of the above changes, the minimum balances of all States, total limits for clean and secured Ways and Means advances to all States worked out as under :-

Effective	Minimum Balances	Clean Ways and Means Advances	(Rs. Crores) Secured Ways and Means Advances
March 1, 1967	6.25	18.75	37.50

1972 Revision

The total minimum balances of all States were increased with effect from May 1, 1972 due to fixation of minimum balances in respect of four new States viz., Himachal Pradesh, Manipur, Meghalaya and Tripura. The expenditure of the States had increased considerably since the limits for clean advances were revised in 1967. As a measure of assistance to the States against any temporary imbalance between receipts and expenditure on account of abnormal or unforeseen factors, the RBI agreed to increase authorised clean Ways and Means advances to Rs.78.00 crore from the existing level of Rs.19.50 crores as per the recommendations of the Working Group constituted to suggest ways for elimination of overdrafts. The limits for clean Ways and Means advances thus worked out to four times the existing limits i.e. 12 times the minimum balance. The minimum balances and revised ordinary Ways and Means limits were as under. There was no increase in the secured Ways and Means limits.

Effective	Minimum Balances	Clean Ways and Means Advances	(Rs. crores) Secured Ways and Means Advances
May 1, 1972	6.50	78.00	42.66*

* This represents the aggregate of actual limits some of which were more and some less than six times the minimum balance.

1976 Revision

Government of India suggested to RBI in May 1975 that in the context of enormous increase in the size of States' budgets, the question of revision of minimum balances of States and consequently, their Ways and Means advances needed to be considered. A detailed examination was undertaken on the feasibility of undertaking a basic change in he method of determining Ways and Means advances and minimum balances. It was recognised that nay basic change in the formula would inter se alter the limits of State Governments giving rise to avoidable problems. Moreover, it was not deemed desirable to devise a formula linked to expenditure of the State Governments as this would result in automatic increases in the Ways and Means advances. It was indicated to Government that the limits were quite substantial and adequate in the case of most States and there were problems only in the case of a few States because of fundamental imbalances which could not be met merely by additional assistance in the form of Ways and Means advances from the RBI. To the extent there was some need for increased limits, it was felt that the existing structure could be retained and increases agreed to within the present formula. The following suggestions were made: -

(i) The minimum balances amount to Rs.6.50 crores for all States would be doubled (taking into account the increase in prices since 1966-67).

(ii) The limits for clean advances would be fixed at 10 times the revised minimum balances instead of 12 times hitherto.

(iii) The limits for secured Ways and Means advances could be increased to ten times the revised minimum balances.

Accordingly, the revised minimum balances and limits for Ways and Means advances were as under: -

(Rs. crores)

Effective	Minimum Balances	Clean Ways and Means Advances	Secured Ways and Means Advances
May 1, 1976	13	130	130

The rates of interest on Ways and Means advances which were one per cent below Bank Rate were revised as follows: -

(i) for 90 days - 1 per cent below Bank Rate
(ii) for 91 to 180 days - 1 per cent above Bank Rate
(iii) beyond 180 days - 2 per cent above Bank Rate

The rates of interest on overdraft were fixed as under :-

For the first 7 days - Bank Rate
Over 7 days - 3 per cent above Bank Rate

1978 Review

As aggregate receipt and disbursement of States as budgeted for 1978-79 were around 26 times their level in 1963, it was felt that limits for RBI's accommodation should be further revised. The limits for normal Ways and Means advances were, therefore, raised from Rs.130 crores in 1976 to Rs.260 crore in1978, i.e. twenty times the minimum balance. The limit for special (or secured) Ways and Means advances was, however, kept unchanged at ten times the minimum balance. The changes effected in clean and unsecured Ways and Means advances as on October 1, 1978 were as under:-

(Rs. crores)

Effective	Minimum Balances	Clean Ways and Means Advances	Secured Ways and Means Advances
October 1, 1978	13	260	130

1982 Review

In June 1982, Government of India took steps to clear Ways and Means advances and overdraft of States outstanding as at the end of June 1982 by grant of medium term loans/Ways and Means advances. To eliminate the incidence of overdraft on an enduring basis and having regard to the increased budgetary expenditure of States since October 1978, it was decided to double RBI's accommodation. Normal and Special Ways and Means advances were thus raised from Rs.260 crores and Rs.130 crores to Rs.520 crore (forty times the minimum balance) and Rs.260 crores (twenty times the minimum balance) respectively with effect from July 1, 1982. The minimum balances to be maintained by States with RBI remained unchanged at Rs.13 crores.

(Rs. crores)

Effective	Minimum Balances	Clean Ways and Means Advances	Secured Ways and Means Advances
July 1, 1982	13	520	260

1986 Review

The limits for Ways and Means advances were again reviewed in August 1986 at the instance of the Government. It was found that even though receipts and disbursements of States had increased substantially since 1982 when the revision of limits was last made, there was no strong evidence to show that the seasonal gaps in cash flow had increased proportionately. It was also pointed out by RBI that the streamlining of the release of funds by the Centre to the States and the staggering of the repayment of loans by the States would also help the latter in avoiding serious cash flow problems in any particular month. It was agreed between Government and the RBI that only seasonal deficits and not structural deficits should be taken care of by Ways and Means advances from RBI. Nevertheless, in view of representations from States, it was decided to grant a basic increase of 20 per cent over the existing normal limits. As the cash flow problem faced by States was more severe in the first half of the year than in the second half when the position improves with the receipts of money from market borrowings, an additional 10 per cent rise was granted in the first half of the year. The revised limits with the above increase were as under :-

(Rs. crores)

Effective	Minimum Balances	Clean Ways and Means Advances	Secured Ways and Means Advances
October 1, 1986			
April to September	13	676 (52 times)	260 (20 times)
October to March	13	624	260

1988 Review

In February 1988, a further review of the Ways and Means limits was undertaken at the instance of the Government of India in view of the cash flow difficulties reported to be experienced by States in incurring emergent expenditure on drought relief. In the financial year 1987-88, only four States had got into an overdraft on several occasions and from the available data it was not possible to indicate whether the overdraft on each of the occasions was necessitated purely or mainly on account of the expenditure incurred by those States on drought relief. Besides, some of the worst affected States had not got into the problem of overdraft as often as some others where drought relief expenditure had not been a major problem. It was also necessary to keep in view the fact that all the States had not been uniformly affected by drought and therefore an across-the-board increase in the limits was not necessarily the correct solution. For the same reason, a regular increase in the limits of Ways and Means advances, to take care of the difficulties faced in one year and that too particularly barely a year and a half after the last increase was effected, did not appear to be warranted. However, having regard to the time lag between incurring of drought relief expenditure which was not budgeted by State Governments and the release of Central assistance, RBI agreed for an increase of 40 per cent in normal Ways and Means advances over the limits in force prior to October 1, 1986. The limits were uniformly made applicable throughout the year instead of separate limits for the two halves of the year.

The revised limits with effect from March 1, 1998 have been as under :-

(Rs. crores)

Effective	Minimum Balances	Clean Ways and Means Advances	Secured Ways and Means Advances

March 1,1998	13.30	744.80 (56 times)	266.00 (20 times)

1993 Revision

Several States had represented for revision of the limits upwards. The issue was examined and on analysis of the financial position of State Governments. The important observations of the analysis were :-

(i) Majority of States had availed of WMA up to full extent.

(ii) The number of States running into overdrafts had rise sharply and such occurrences have become more frequent and for larger amounts since 1992.

(iii) During the year 1992-93, all States except three emerged in overdrafts; the period of overdraft in some cases was as high as 192 days during the year. The RBI suspended payments in respect of six States (payments in respect of two States had to be suspended on more than one occasion).

Although number of States had represented that WMA limits should be related to expenditure, a view was taken that such a link would be inappropriate as States which incur expenditure disproportionate to their receipts would be eligible for higher limits, leading to larger deficits. While the main thrust of the policy should continue to be not to allow States to run large deficits, a pragmatic assessment would warrant that genuine temporary mismatches in finances of States should be adequately met by WMA from RBI. Having regard to legitimate needs of the State for WMA and the need to maintain monetary control, it was considered desirable to increase WMA to a level where States which were prudent were freed from the problem of overdrafts. It was also felt that the linking of WMA limits as multiple of the minimum balance would ensure that relativities among State were not disturbed. Based on the above considerations changes effected from November 1, 1993 were as under :-

(Rs. crore)

Effective	Minimum Balances	Clean Ways and Means Advances	Secured Ways and Means Advances
November 1, 1993	13.30	1,117.20 (85 times of min. balance	425.60 (32 times of min. balance)

Simultaneously, the time limit for clearance of overdrafts was extended from seven to ten consecutive working days under the Overdraft Regulation Scheme.

1996 Revision

As an agenda for the new Government at the centre, it was indicated that the system of providing WMA to State Governments should be revamped and the extent of accommodation should be substantially liberalised.

A study of the finances of the States based on their budget documents indicated that while there was improvement in some of the major deficit indicators, certain structural weakness persisted in the form of large revenue deficits, rising interest burden, increasing distortions in the pattern of expenditure and minuscule growth in non-tax revenues. It was, however, felt that there was a need to increase WMA to State Government so that genuine temporary mismatches in finances of State Governments could be adequately met by WMA from RBI. Having regard to legitimate needs of States, it was considered that WMA should be revised to a level where States which are managing their finances prudently are freed from the problems of overdrafts. On a realistic estimate, it was decided that doubling of existing limits for WMA would be reasonable. The limits were accordingly revised as under :-

(Rs. crores)

Effective	Minimum Balances	Clean Ways and Means Advances	Secured Ways and Means Advances
August 1, 1996	13.30	2,234.40 (168 times of min. balance)	266.00 (64 times of min. Balance)

ACKNOWLEDGEMENT

The Committee has been benefited immensely from the rich experience of Shri M.G.Kelkar, who has been associated with the work relating to WMA for more than a decade. Shri A.G.Avalaskar’s contribution in compilation of data has been praiseworthy.

Smt. Abha Prasad, Shri Bhupal Singh and Shri Arnab Gupta, Officers of Division of Fiscal Analysis, Department of Economic Analysis and Policy, have assisted the Committee in providing the budgetary data. The Committee acknowledges their useful contributions.

The Committee acknowledges the secretarial assistance from Smt. A.A.Teredesai, Shri B.G.Koli, Shri B.S.Dekate, Shri S.N.Shirodkar, Shri K.Srikumar and Shri Kiran Dighe at various stages of drafting of the Report.

Shri B.B. Pathak Assistant Manager, IDM Cell, was associated with the administrative and organisational work relating to the Committee, his excellent contribution in this regard is acknowledged.