# 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.

**(iv) Fiscal Management and Integrity of Budget**

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 :-

(Rs. Crores)

| Effective | Minimum Balances | Clean Ways and Means Advances | 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.

(Rs. crores)

| Effective | Minimum Balances | Clean Ways and Means Advances | 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**<br>(52 times) | **260**<br>(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**<br>(56 times) | **266.00**<br>(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**<br>(168 times of min. balance) | **266.00**<br>(64 times of min. Balance) |