Ways and Means Advances

35. In pursuance of the agreement between the Reserve Bank and the Central Government signed in March, 1997, the practice of issuing ad hoc Treasury Bills to replenish Central Government's cash balance was discontinued with effect from April 1, 1997. As per the agreement, the Central Government would meet temporary mismatches between receipts and expenditure through Ways and Means Advances (WMA) provided by the RBI. The size and cost of WMA would be determined on the basis of mutual agreement. Amounts drawn beyond the WMA limit would be treated as overdraft. For 1997-98, WMA was fixed at Rs.12000 crore and Rs.8000 crore for the first half (April-September) and Second half (October-March) respectively. The interest rate for WMA for fiscal 1997-98 was to be determined every quarter on the basis of the average of the implicit yield at the cut off price of 91-day Treasury Bill Auctions held during the previous quarters. The rate actually applicable to WMA is less than this average by 3 per cent. For overdraft, the rate of interest is above the WMA rate by two per cent. The transition from ad hoc Treasury Bills to the WMAs means elimination of automatic monetisation of fiscal deficit because, unlike ad hoc Treasury Bills, the instrument of WMAs is not a source of financing fiscal deficit. As per the agreement WMAs shall be fully paid off within three months from the date of making the WMAs. Further, when 75 per cent of the WMAs is utilised, the RBI would trigger fresh floatation of Government Securities. For the larger part of 1997-98, the Central Government did not resort to WMAs.