

# RBI increases WMA limit for States and UTs

written by iasexam.com | 02/04/2020



The Reserve Bank of India (RBI) has decided to increase the Ways and Means Advances (WMA) limit for state governments and Union Territories by 30 per cent till September 30, and allowed exporters six months extra to realise their export proceeds, in a bid to deal with the economic fallout of the coronavirus pandemic.

The central bank also said banks didn't need to activate countercyclical capital buffers for one more year. This means banks can utilise the capital earmarked for the buffer.

## **Key Highlights**

- Relaxing the export norms, the RBI said exporters could now take 15 months to realise and repatriate their export proceeds, for exports made up to July 31. According to the normal rules, exporters have to repatriate the export proceeds within nine months.
- The RBI took the call to "enable exporters to realise their receipts, especially from Covid-19 affected countries, within the extended period and also provide greater flexibility to them to negotiate future export contracts with buyers abroad".
- The relaxation by the RBI is what the industry suggested to the central bank, and is a move that will ease the pain of exporters considerably.
- However, currency dealers pointed out that the central bank should have taken some steps to ease the pain of exporters engaged in forward contracts. Since export realisation has been postponed, exporters have no use of forward contracts, but must honour the contract, thus incurring losses.

## **About WMA**

WMA is a temporary liquidity arrangement with the central bank, which enables the Centre and states to borrow money up to 90 days from the RBI to tide over their liquidity mismatch. On Tuesday, the RBI also increased WMA for the Centre to Rs 1.2 trillion for the first half, up from Rs 75,000 crore in the first half last year, and Rs 35,000 crore for the second half of 2019-20 originally announced. The increase in the WMA limits will help states to rely less on the bond markets.

An increase by the RBI in the WMA limit, even as temporary, helps states to avoid unplanned borrowings, experts say. Instead, the states can simply tap the RBI resources in the case of liquidity mismatch.

**SOURCE:** *Business Standard*