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Sonal Badhan
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Cash imbalances of states

In the current fiscal year, we have noticed that there are a number of states which have been consistently using RBI's cash flow management facilities in order to meet their fiscal commitments. While these facilities are provided with an objective of meeting temporary mismatches, some states are using them on a regular basis which signals possible liquidity stress. In this note, we briefly look at states which using these facilities more extensively and their receipts and expenditure patterns.

RBI's cash management facilities

RBI has made provisions for 3 kinds of facilities namely, Special Drawing Facility (SDF), WMA (Ways and Means Advances) and OD (Over Draft), for "State Governments to tide over temporary mismatches in the cash flows of their receipts and payments". *These have been explained in detail in the appendix.*

Looking at the current trends (Apr'22-Aug'22) in utilization of SDF/WMA/OD facilities by states, some of the major states which seem to be having problems in fiscal management include:

- Andhra Pradesh, Telangana, Punjab and Rajasthan.
- Majority of the North Eastern states have also been using RBI's cash flow management facility consistently.
- Maharashtra, Assam and Karnataka have taken recourse to SDF while Kerala has used WMA too. However, the number of days for which they have availed this facility is low unlike the top four.

On an average, Andhra Pradesh and Telangana have availed Rs 712 and Rs 735 crore respectively under SDF facility alone this fiscal year. Out of the 153 days (Apr-Aug), these states availed SDF for 133 and 152 days respectively. Amount accessed via WMA was even higher, averaging Rs 1,773 crore for Andhra Pradesh and Rs 1,206 crore for Telangana, and that too on a regular basis. Even OD facility was availed, which is provided at rates higher than repo rate (see appendix for details). Amongst the North-Eastern states, Manipur, Mizoram and Nagaland are the ones which have availed all three facilities.

Other worrisome trend emerges from Rajasthan and Punjab, which too availed funds under SDF facility for 110 and 90 respectively, out of a total of 153 days. Average funds availed by them were higher than those accessed by Andhra Pradesh and Telangana.

On the other hand, there are states which have never or rarely resorted to these cash management facilities. States like Gujarat, Tamil Nadu, and Bihar have never (since 2017) accessed these facilities and even states like Odisha, UP, and Madhya Pradesh, have availed them very rarely.

RBI in its study identified 10 "vulnerable states" in terms fiscal management and these included: Andhra Pradesh, Bihar, Haryana, Jharkhand, Kerala, Madhya, Punjab, Rajasthan, Uttar Pradesh and

West Bengal. The report noted that in terms of debt-GSDP ratio, “highly stressed states are Bihar, Kerala, Punjab, Rajasthan, and West Bengal”. It further added that “states (such as) Andhra Pradesh, Bihar, Rajasthan and Punjab exceeded both debt and fiscal deficit targets for FY21 set by the 15th Finance Commission.”

Table 1: Financial accommodation availed by state governments under various facilities

States, Apr'22-Aug'22, Rs crore	SDF		WMA		OD	
	Average amount availed	No. of days availed	Average amount availed	No. of days availed	Average amount availed	No. of days availed
Andhra Pradesh	712	133	1,773	122	1,819	51
Telangana	735	152	1,206	138	851	58
Rajasthan	3,146	110	0	0	0	0
Punjab	797	90	0	0	0	0
Manipur	16	121	195	137	261	75
Meghalaya	113	54	64	32	0	0
Mizoram	58	42	74	32	93	13
Nagaland	109	77	144	55	96	22
Haryana	343	13	457	5	0	0
Maharashtra	1,960	12	0	0	0	0
Jammu & Kashmir UT	0	0	923	105	358	53
Kerala	147	10	839	10	0	0
Karnataka	176	9	0	0	0	0
Assam	144	9	0	0	0	0

Source: RBI, Bank of Baroda Research

State government: Receipt and expenditure patterns

Monthly fiscal accounts of states show that Andhra Pradesh, Telangana, Punjab and Rajasthan have much lower revenue receipts in comparison to total expenditure made by them during the current fiscal year. This implies higher reliance on market borrowings/grants in aid from centre to make ends meet. This could also be why they are more consistently accessing RBI’s cash management facilities. Amongst the North Eastern states, this trend visible in the accounts of Mizoram and Nagaland.

In comparison, state like Gujarat has balanced well between expenditure and revenue receipts. In case of Bihar and Tamil Nadu too, there seems to be greater reliance on market borrowings and grants in aid from centre, but it is managed in such a way that RBI’s cash management facilities have never been accessed. In case of Odisha and UP too, there is balance between spending and revenue receipts.

RBI’s study also noted that amongst the 10 vulnerable states, “share of revenue expenditure in total expenditure of these states varies in the range of 80-90%. Some states like Rajasthan, West Bengal, Punjab and Kerala spend around 90% in revenue account. This results in low expenditure quality, as reflected in their high revenue spending to capital outlay ratios. Although welfare-enhancing, the impact of revenue spending on economic activity lasts for just about a year. In contrast, the impact of capital outlay is stronger and lasts longer, with the peak effect materialising after 2-3 years. In the medium to long term, states with high revenue spending and low capital investment may experience slower revenue growth and higher interest outgo."

One argument that is presented by states in favour of using these facilities is that the rate of borrowing is lower than market borrowings. Between Apr-Aug'22, states could have availed SDF facility at an average rate of 3.2-4.2%, while the SDLs were being auctioned at 7.8%. However, the key difference here is that these facilities can be used only for a limited number of days while SDL auctions usually provide access to funds for a much longer period. In addition, when States exhaust SDF and WMA options and move to OD, the average rate on borrowings would have increased to 7.2-10.2%, thus showing that access to this facility must only be used very occasionally.

Table2: Trends in receipts and spending

(Rs crore)	FYTD23 (Apr-Aug)				FYTD23 (Apr-Aug)		
	Total Receipts	Revenue Receipts	SGST (ex collections from imports)	Grants in Aid from Centre	Total Expenditure	Revenue Expenditure	Capital Expenditure
Andhra Pradesh	1,03,975	59,381	15,747	39,848	1,02,490	96,365	6,126
Bihar	62,025	38,591	6,410	7,528	61,174	55,610	5,564
Gujarat	71,312	76,262	45,415	9,805	70,732	60,493	10,239
Haryana	42,373	32,650	34,342	1,637	41,704	38,998	2,706
Karnataka	86,238	84,722	47,215	12,481	85,503	73,880	11,623
Kerala	65,774	51,651	10,668	13,399	64,935	59,834	5,101
Madhya Pradesh	85,640	72,758	14,075	13,347	84,746	68,872	15,875
Maharashtra	1,44,171	1,49,995	1,05,049	19,847	1,43,821	1,34,164	9,657
Manipur	7,392	7,131	204	2,400	5,671	4,581	1,090
Meghalaya	4,725	4,834	774	1,244	5,000	4,688	313
Mizoram	3,405	2,270	130	690	3,405	3,361	44
Nagaland	8,591	4,844	211	2,108	8,591	4,682	3,910
Odisha	42,803	54,394	19,222	3,495	42,392	36,483	5,909
Punjab	39,305	33,702	8,610	10,019	39,018	37,533	1,485
Rajasthan	89,819	70,233	17,494	8,783	89,731	82,713	7,018
Tamil Nadu	1,08,493	91,812	41,410	14,328	1,07,748	97,001	10,747
Telangana	80,008	61,557	20,217	4,012	72,625	66,336	6,289
UP	1,52,676	1,48,947	34,364	18,572	1,51,530	1,32,667	18,863

Source: CEIC, Bank of Baroda Research

Conclusion

The above analysis shows that some states have been pressurized on the revenue side to meet their expenditure commitments. These are also the states which have to rely more on market borrowings and grants from centre. In others there has been a tendency to access RBI's cash management facilities. It must be noted here that while there is nothing wrong in accessing these facilities occasionally, to manage "temporary mismatches", using them on a regular basis is symptomatic of challenges in managing expenditure. Going forward as repo rate continues to increase, cost of accessing these facilities, mainly WMA and OD will continue to inch up, and will narrow the margin with SDL yields.

Appendix

RBI advises that all states maintain CSF and GRF fund with the central bank to provide cushion for loans taken as well as guarantees given bon borrowings of state enterprises. Maintaining these funds carry the advantage of getting access to RBI's cash management windows. [RBI's May2'21 report] on Advisory Committee on Ways and Means Advances to State Governments presented the following details on CSF and GRF:

Table 1: Features of CSF and GRF

Features	Consolidates Sinking Fund (CSF)	Guarantee Redemption Fund (GRF)
Contributions to the Fund	The Government shall commence contribution to the Fund on a modest scale of at least 0.5% of the outstanding liabilities as at the end of the previous year and make efforts to raise the minimum contribution every year. There is no ceiling on such contributions to the Fund in terms of number of times of making contributions in a year.	The Fund shall be set up by the Government with an initial contribution of minimum 1 per cent of outstanding guarantees at the end of the previous year and thereafter minimum 0.5% every year to achieve a minimum level of 3% in next five years. The Fund shall be gradually increased to a desirable level of 5 per cent. If guarantees have been invoked or are likely to be invoked, additional Funds (over and above 5%) shall be maintained.
Withdrawal from the Fund	Permissible only for repayment of Outstanding liabilities which includes internal debt and Public Account liabilities of the Government.	Permissible only for meeting the payment obligations arising out of guarantees issued by the Government and invoked by the beneficiaries.
Withdrawal Limit	Withdrawal is allowed from the interest income accrued and accumulated in the Fund up to the end of previous financial year. The amount shall not exceed the amount of redemption due for that year in respect of open market borrowings.	Withdrawals allowed from out of the balance accumulated in the Fund up to the date towards redemption of the guarantees invoked and to be paid by the Government, as per its directions or Government shall have the option to withdraw excess fund over 5 per cent of outstanding guarantees of the previous year.
Lock-in Period	5 years	-
Facility to avail SDF	The net incremental annual investment of States (i.e. outstanding balance over and above the level in the corresponding period of the previous year) is eligible for availing SDF.	The net incremental annual investment of States (i.e. outstanding balance over and above the level in the corresponding period of the previous year) is eligible for availing SDF.

Source: RBI, Bank of Baroda Research

Against this backdrop, RBI provides access to its Special Drawing Facility (SDF), WMA (Ways and Means Advances) and OD (Over Draft).

Special Drawing Facility (SDF): SDF availed by State Governments/ UTs is linked to the quantum of their investments in marketable securities issued by GoI, including Auction Treasury Bills (ATBs). The net annual incremental investments in CSF and GRF is eligible for availing of SDF, without any upper limit. A uniform hair cut of 5% is applied on the market value of securities.

WMA (Ways and Means Advances): The WMA limits are calculated on the basis of total expenditure of State Governments. The rationale for adopting expenditure-based methodology was to revise the limit according to the fiscal size of States.

OD (Over Draft): When advances to State Governments exceed their SDF and WMA limits, then OD facility is provided. The total number of days that a State can remain in OD had been extended to 14 consecutive working days by the Ramachandran Committee. If the OD exceeds beyond 14 consecutive working days, the RBI and its agencies shall stop payments in respect of the concerned State Government; if the WMA limit is exceeded continuously for 5 consecutive working days for the first time in a financial year, the State will be advised by the Reserve Bank to bring down the OD level and if such irregularity persists on a second or subsequent occasion in the financial year, the Reserve Bank will stop payments, notwithstanding the provision of permitting OD up to 14 days. In a quarter, the OD availed should not exceed 36 days irrespective of 14 days & 5 days rules.

The interest rate on SDF, WMA and OD are linked to the policy rate of the Reserve Bank i.e., the Repo Rate. Interest is charged for all the days the advance remains outstanding.

The prevailing rates are as given below:

Table 2: Interest rates on cash management facilities provided by RBI

Scheme	Limit	Rate of interest
SDF	If availed against net annual incremental investment in CSF and GRF	Repo rate minus 2%.
	If availed against investment in G-sec/ ATBs	Repo rate minus 1%
WMA	If outstanding up to 3 months from the date of making the advance	Repo rate
	If outstanding beyond three months from the date of making the advance	Repo rate plus 1%
OD	If availed up to 100% of WMA limit	Repo rate plus 2%
	If it exceeds 100% of WMA limit	Repo rate plus 5%

Source: RBI, Bank of Baroda Research

WMA Limit of State Governments and UTs (Amount in ₹ crore)		
Sl.No.	**States/UTs**	**WMA Limit**
1	Andhra Pradesh	2,252.00
2	Arunachal Pradesh	285.00
3	Assam	1,243.00
4	Bihar	2,272.00
5	Chhattisgarh	1,056.00
6	Goa	203.00
7	Gujarat	2,518.00
8	Haryana	1,464.00
9	Himachal Pradesh	656.00
10	Jammu and Kashmir	1050.00
11	Jharkhand	1,067.00
12	Karnataka	3,137.00
13	Kerala	1,683.00
14	Madhya Pradesh	2,560.00
15	Maharashtra	4,686.00
16	Manipur	233.00
17	Meghalaya	209.00
18	Mizoram	191.00
19	Nagaland	245.00
20	Odisha	1,576.00
21	Puducherry	155.00
22	Punjab	1,104.00
23	Rajasthan	2,608.00
24	Tamil Nadu	3,601.00
25	Telangana	1,728.00
26	Tripura	304.00
27	Uttar Pradesh	5,680.00
28	Uttarakhand	602.00
29	West Bengal	2,641.00
	Total (All States/UTs)	47,010.00

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For further details about this publication, please contact:

Economics Research Department
Bank of Baroda
+91 22 6698 5143
chief.economist@bankofbaroda.com