Fundraising for Covid-19

Why in News

Recently, the Government has hiked **Ways and Means Advance (WMA)** limit with the **Reserve Bank of India (RBI)** by 60%.

- WMA limit is proposed to be revised to Rs 1.20 lakh crore and would be reviewed on a need basis (from Rs 75,000 crore last year).
- This is to compensate for the cash flow mismatch in Financial Year (FY) 21 expected from higher spending to combat the spread of **COVID-19.**

Ways and Means Advance scheme

- The Ways and Means Advances scheme was **introduced in 1997.**
- The Ways and Means Advances scheme was introduced to **meet mismatches in the receipts and payments of the government.**
- The government can avail of **immediate cash from the RBI,** if required. But it has to **return the amount within 90 days.** Interest is charged at the **existing repo rate.**
- If the WMA exceeds 90 days, it would be treated as an **overdraft** (the interest rate on overdrafts is 2 percentage points more than the repo rate).
- The limits for Ways and Means Advances are **decided by the government and RBI** mutually and revised periodically.
- A **higher limit provides the government flexibility** to raise funds from RBI without borrowing them from the market.

Key Points

- The government has announced a **Rs 1.7 lakh crore package (Pradhan Mantri Garib Kalyan Yojana)** to provide income support, free food and other facilities to the poor to help them **during the 21-day national lockdown.**
- The fundraising resources are **not only from the market, but also from institutions such as the RBI.**

- The **Budget 2020-21** has pegged the Centre's net market borrowing, including government securities, treasury bills and post office life insurance fund at Rs 5.36 lakh crore.
- Out of **gross borrowings** of Rs 7.8 lakh crore in FY21, the Centre has proposed to borrow Rs 4.88 lakh crore, or 62.56%, in the first half of the fiscal, as against 62.25% done in the previous fiscal.
- In FY21, the Centre also plans to issue the **Debt Exchange Traded Fund** comprising government securities to widen the base of investors.
    - This will enable **retail investors,** who otherwise find it difficult to buy government bonds directly, take an exposure in this **risk free instrument.**

Exchange Traded Fund

- An Exchange-Traded Fund (ETF) is a **basket of securities** that trade on an exchange, just like a stock.
- ETF reflects the **composition of an Index,** like BSE Sensex. Its **trading value is based on the Net Asset Value (NAV) of the underlying stocks** (such as shares) that it represents.
- ETF share prices **fluctuate all day** as it is bought and sold. This is different from mutual funds that only trade once a day after the market closes.
- An ETF can **own hundreds or thousands of stocks across various industries,** or it could be isolated to one particular industry or sector.

Source: IE