Loan Waivers to Farmers

What is the issue?

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- In April, Uttar Pradesh government waived farm loans worth over Rs. 36,000 crore.
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- State governments in Tamil Nadu, Maharashtra, and Punjab have also extended similar waivers.
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- This has now led to fears that farmers in other States too could begin asking for waivers.
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Why are governments writing off loans?

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- Farm loan waivers mostly been used as a tool by governments to temporarily address the problem of farmer distress.
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- Due to an overall good monsoon last year there was a bumper production of farm goods.
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- This lead to a rapid fall in the prices of the farm goods.
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- This has forced the farmers to default on the loans they borrowed from banks.
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- With the prevailing low prices, it would be costlier for the State government to procure the produce of farmers at remunerative prices.
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- So they have resorted to loan waivers that cost less money.
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What is the impact of loan waivers?

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- Banks will have to be compensated by the governments for the losses they incur. So this imposes a significant cost on the budgets of State governments.
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- It could also encourage wilful default by farmers who can actually afford to pay off their loans, thereby further increasing the cost.
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- This could also send a wrong message. e.g When farmers know that the government will waive off their loans when things go wrong, they are more likely to make poor investments or take higher risks.
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What is the real problem?

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- Loan waivers are only the symptom of an underlying problem.
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- The real problem may be populist lending that has pushed Indian farmers into a debt trap.
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- Farmers are a powerful vote bank for many major political parties.
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- So many State governments push loans to farmers without proper risk analysis.
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- Indian agriculture also faces crisis due to the risks involved in agriculture, and the lack of sufficient returns.
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- This cannot be solved through temporary populist measures.
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- They require structural reforms to improve farmer incomes.
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Source: The Hindu

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