Negatives of Farm Loan Waiver

Why in news?

\n\n

\n
- Madras High Court has directed the government recently to extend the farm loan waiver to all the farmers irrespective of their extent of landholding.
\n
- The UP government also recently announced farm-loan waiver.
\n

\n\n

What are the negatives of waiver?

\n\n

\n
- It undermines an honest credit culture.
\n
- Loan waivers will affect state government finances by increasing the deficit and worsening the quality of expenditure. Overall government borrowing goes up.
\n
- Factors include rise in wage bill and under-provisioning of interest payment for Ujwal DISCOM Assurance Yojana (UDAY) bonds etc. Farm-loan waivers will further increase the risk of slippage.
\n
- The possibility of implementation of loan waivers in other states will have a bearing on the national balance sheet.
\n
- State governments at the aggregate level account for about 60% of total government expenditure.
\n
- So maintaining fiscal discipline and quality of spending at the state level is becoming increasingly important.
\n
- Even though the fiscal onus of loan waivers will be on states, it affects the Central government as the chances of a credit-rating upgrade will diminish.
\n
- Yields on government bonds also are impacted.

\n
- It it can also lead to the crowding out of private borrowers as higher government borrowing can lead to an increase in cost of borrowing for others.
\n
- A consensus should be created so that loan-waiver promises are avoided, as sub-sovereign fiscal challenges can affect the national balance sheet.
\n

\n\n

\n\n

Source: Livemint

\n

