Explain the various impacts on India's macroeconomic stability and financial health of states due to farm loan waiver policy. ①

Agriculture is still the mainstay of rural economy. Distress times have often ended up in farm loan waivers, which have amounted to ₹2.63 trillion in a span of 2014-15 to 2018-19. Such a firefighting strategy, in the long run has not solved the structural crisis, rather burdening centre and state governments

IMPACT OF FARM LOAN WAIVERS

RBI report on 'Internal working group on farm loan' discussed the unequal implementation of waivers among states of India. The effects broadly discussed under Macroeconomic stability and State finances.

I Impact on Macroeconomic stability.

1) Increase in centre's debt profile:-

Cost of farm loan waivers borne by both centre and state. Thus, they increase fiscal deficit targets of central governments.

2) Banking crisis:-

Nearly 40% of Priority sector lendings are given to small, marginal farmers whose loans have turned to NPA's. Provisioning reduced income of banks pushing cost of lending

3) Prudent lending activities:-

Farm loan waivers increase risk profile of farmers. Thus Banks are constrained to extra scrutiny, which acts as deterrent for lending to farmers. Thus farmers are pushed to informal lenders, pushing to debt traps.

4) Neglect on other sectors:-

In 51% credit to agriculture, livestock related loan accounts 6-7% when India is largest milk producers. Neglect on export potential sector leads to unequal development, straining income for farmers.

II Impact on State finances

1) **Constraint on State budget:-**

States revenue account is much lesser than centre. Burden of waivers pushes states inability to maintain FRBM debt target at 3%. Resources are diverted to non-developmental aids.

2) **Disincentivise farmers to perform well:-**

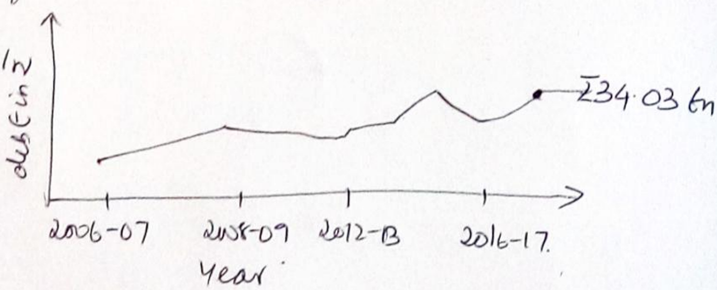
Farm loan waivers incentivise defaulters, punish those who pay loans. Thus, farmers move out of agriculture sector, reducing the production in primary sector. Rural economy gets affected.

3) **Increased debts of states:-**

States, inorder to supplement the amount forgone on debts, resort to Extra commercial borrowings. State borrowings pile longterm public debt.

4) **Decline in public investment**

RBI report shows GCF in agriculture to be at mere 18.2% in 2017-18. Funds diverted to revenue expenditure is reason for default



Steady increase in state borrowing

Farm loan waivers are thus knee-jerk reactions to crisis. Of late, they have become instruments of political powerplay. Repairing farm sector, as the report says must focus on structural development, redefining credit flow, MSP policies, subsidy rationalising rather than farm loan waiving.