Negatives of Farm Loan Waiver

Why in news?

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

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- It undermines an honest credit culture.
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- Loan waivers will affect state government finances by increasing the deficit and worsening the quality of expenditure. Overall government borrowing goes up.
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- 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.
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- The possibility of implementation of loan waivers in other states will have a bearing on the national balance sheet.
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- State governments at the aggregate level account for about 60% of total government expenditure.
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- So maintaining fiscal discipline and quality of spending at the state level is becoming increasingly important.
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- 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.
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- Yields on government bonds also are impacted.
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- 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.
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- A consensus should be created so that loan-waiver promises are avoided, as sub-sovereign fiscal challenges can affect the national balance sheet.
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Source: Livemint

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