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Farm Loan Waiver

Why in news?

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Chairing his first cabinet meeting, the CM of UP has approved a write-off on outstanding farmer loans of up to Rs. 1 lakh taken before March 31, 2016.

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What are the ill-effects?

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- The UP cabinet also decided to waive loans worth Rs. 6,000 crore extended to small and marginal farmers that had **turned into NPAs.**
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- Together, this package, aimed at fulfilling the election promise, will cost the exchequer about Rs. 36,000 crore.
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- A little earlier, the Madras High Court ordered the TN govt to extend a similar farm loan waiver scheme for small farmers and marginal farmers to all farmers.
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- Officials have even been forbidden from trying to recover loans where repayments have slipped.
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- The State, which had already doled out Rs. 5,780 crore on this front, would need nearly Rs. 2,000 crore more to comply with the court’s order.
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- This is a **worrying trend for a country that wants to double agricultural incomes by 2022**.
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- Not only could it **trigger a countrywide clamour** for similar debt relief packages, political parties would also be more inclined to make such promises ahead of polls.
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- Also, the Madras High Court has clearly reached into the the domain of the executive.
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- Forgiving loan burdens is like govts have had **little patience to make agriculture a sustainable economic activity** with efficient linkages to formal markets.
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- Writing off loans as a blanket policy, without scrutiny and restructuring attempts **creates a moral hazard for borrowers,** who will have no incentive to stick to credit discipline.
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- Frequent write-offs will prod banks to invest in alternatives such as the **Rural Infrastructure Development Fund** instead of reaching out to individual farmers to meet their agricultural lending targets.
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Source: The Hindu

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