

## Farm debt waivers not favoured by ex-RBI heads

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Former RBI Governors (L-R) Y V Reddy, C Rangarajan, Bimal Jalan and D Subbarao at Inclusive Finance India Summit 2017. Photo: Sanjay Sharma

At a discussion on policy, two former Reserve Bank of India (RBI) governors were critical of the farm debt waiver announcements by some state governments.

Y V Reddy, ex-governor, said such decisions would not help the economy. C Rangarajan, another ex-governor, agreed and said it was better to instead give farmers more time to repay.

"Loan waiver is not good for economic or credit culture. Every political party in India has given farm loan waivers in some state or the other or at all-India level. It is a political decision but cannot be justified in the longer run," Reddy said, on the sidelines of the Inclusive Finance India Summit.

Recent announcements in this regard have been made by the governments of Telangana, Uttar Pradesh, Punjab, Karnataka and Maharashtra.

"First, waive interest payments during a year of distress. Second, reschedule the loan, so that farmers get a longer timeframe for repayment. Only if all these things don't succeed should the government think of loan waiver," said Rangarajan.

During a panel discussion of former RBI governors on financial inclusion, D Subbarao emphasised that providing of bank accounts does not translate to financial inclusion. He gave the example of Ernakulum district in Kerala, where people still borrow from moneylenders despite achieving 100 per cent financial inclusion a few years earlier.

"We do not understand poverty very well. We think poor people want bank accounts because they do not have any avenue for saving money," Subbarao said. "(But) poor people also want bank accounts because they want

credit. Poor people will come to the banking system for financial inclusion only if we provide them all that they want -- saving, remittance, credit and insurance."

Former RBI governor Bimal Jalan said financial inclusion had to be combined with financial stability.

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The former governors wanted a diversified model for financial inclusion, instead of a common policy.

Rangarajan said there has to be a clear distinction between financial inclusion towards credit and financial inclusion towards deposits. "Achieving the former is far more difficult than the latter," he said.

He added that the consolidation of rural banks was a disturbing trend, as "the local character of banks is getting diluted".

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