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# Farm loan waivers worst solution for rural crisis: SBI Research

BY PTI | DEC 13, 2018, 04.45 PM IST

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MUMBAI: The poll-bound Modi government may announce a holistic or selective farm loan waiver, however, it could be the "worst solution" to alleviate farmers' distress, warn economists at SBI Research.

Instead, they suggest that income support schemes may be a more effective alternative and bold steps are needed to address rural distress, days after the ruling Bharatiya Janata Party's (BJP) loss in three key state elections where farmers have been hit by low prices and higher input cost.

"Considering the farm distress and the lower food inflation resulting in lower revenue generation for the farming community, the central government may decide on a farm debt waiver scheme, holistically or selectively in some states," the report said Thursday.

This comes amidst similar reports in sections of media, said seven states going for elections along with the parliamentary polls can drive such a decision.

Bankers and the Reserve Bank (RBI) have often expressed concern that debt waivers can wreck credit culture.

Stating that up to Rs 70,000 crore will be spent on farm debt waivers till May 19 (when the general elections are scheduled to be held), it said this makes it a "frightening challenge" for the banking community ahead.

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However, it pitched for an income support scheme as an alternative, saying with a lower spending of Rs 50,000 crore, a larger benefit can be accrued to the target groups.

"Farm loan waiver is not the solution for this problem. We need to increase farmers income. Hence there is a dire need to introduce income support scheme at an all-India level," it said.

There are 21.6 crore small and marginal farmers and such a scheme is the only way to support the farmers, apart from ensuring market prices for their produce, it said.

It suggested providing Rs 12,000 per family per year in two installments, which will entail an outgo of Rs 50,000 crore nationally.

Telangana has done the first direct benefit transfer to farmers under the Rythu Bandhu Scheme, where the agriculturists are supported for having two crops per year, it said.

A dip in rural inflation is the prime reason to support farmers, it said, pointing out that it has dipped below the two per cent mark.

It added the fall in rural food prices in Madhya Pradesh, Chhattisgarh and Rajasthan, where the BJP lost power, is much sharper than the other states.

The SBI economists said RBI will switch the policy stance at the February review and cut rates in April, following the release of data Wednesday showing a cool down in headline inflation at 2.33 per cent.

**HDFC Bank** economists concurred, saying the stance will be changed to "neutral" in February from the present "calibrated tightening".

"It might be too early to expect a rate cut in February. For one, the food prices story is still not certain and it is best to adopt a wait-and-watch approach for some time," it said.

Bank of America **Merrill Lynch** said it is more confident of its call for a rate cut either in February or April after new RBI Governor said that the outlook on inflation is "benign".

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