

## ANALYSIS

# Farm loan waiver: Will put States in a financial spot

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**The loan waiver is likely to benefit 40 lakh farmers but banks are unhappy**

## States' gross fiscal deficit to GSDP ratio crossed the comfortable mark of 3% in FY18

### BL RESEARCH BUREAU

Over the last few days, the newly elected Congress governments in different States have been announcing waiver of farm loans of several thousand crores. The loans waived so far total up to a massive ₹2.10 lakh crore.

This includes the ₹36,000-crore write-off done by Yogi Adityanath in April (2017) in Uttar Pradesh and ₹34,500-crore waiver by Devendra Fadnavis in June (2017) in Maharashtra.

Bankers and economists are crying foul at this move of the States, not without reasons.

State finances are in a precarious situation shows data. The total outstanding liabilities (as at end-March on 2019 Budget Estimates) as a percentage of GSDP (Gross State Domestic Product) was 41.5 per cent for Punjab, 33.6 per cent for Rajasthan, 26.2 per cent for Uttar Pradesh and 25.5 per cent for Madhya Pradesh.

The total outstanding liability of UP as well as Rajasthan is over ₹3 lakh crore. Madhya Pradesh has outstanding loans of ₹2 lakh crore. Maharashtra has the highest debt of all States — ₹4.96 lakh crore — but its debt-to-GSDP ratio is a not so alarming at 17.5 per cent.

Loan waivers are thus set to squeeze State budgets further and deliver a blow to investments, affecting employment and wage growth in the coming year.

Chances are also high that States will finally end up attaching many conditions to their waivers and not cover all the farmers, say experts.

## Waiver conundrum

States	Total outstanding liabilities as a % to GSDP 2019 BE	Total outstanding liabilities 2019 March (BE) (₹ crore)
Punjab	41.5	2,11,580
Rajasthan	33.6	3,13,460
Kerala	32.4	24,094
Bihar	29.5	16,198
West Bengal	28.3	3,93,700
Andhra Pradesh	27.3	2,52,020
Haryana	27.6	1,86,970
Jharkhand	27.3	83,100
Madhya Pradesh	25.5	2,07,160
Uttar Pradesh	26.2	3,85,220
Goa	22.5	19,280
Tamil Nadu	23.2	3,66,010
Telangana	22.2	1,82,330
Odisha	21.9	1,00,180
Gujarat	19.7	2,88,910
Karnataka	18.7	2,64,600
Maharashtra	17.5	4,96,660
Chhattisgarh	17.4	62,990



Source: Combined Finance and Revenue Accounts of the Union and State Governments in India, CAG; Reserve Bank Records; Budget Documents of the State Governments

The loans waivers since 2017 have already created fiscal pressure for the States. In 2017, Maharashtra, Uttar Pradesh and Punjab sanctioned farm loan waivers to the tune of ₹34,000 crore (1.3 per cent of GSDP), ₹36,000 core (2.7 per cent of GSDP) and ₹10,000 crore (2.1 per cent of GSDP), respectively. Rajasthan followed suit with a debt waiver announcement of ₹8,000 crore in February 2018 amounting to 0.9 per cent of GSDP.

Thus, in 2017-18 the States crossed the comfortable mark of 3 per cent in gross fiscal deficit (GFD) to gross domestic product (GDP) ratio.

The fall in tax revenue alongside higher revenue expenditure following loan waivers and pay revisions, may be attributed to this, says a study of the Reserve Bank of India on State finances.

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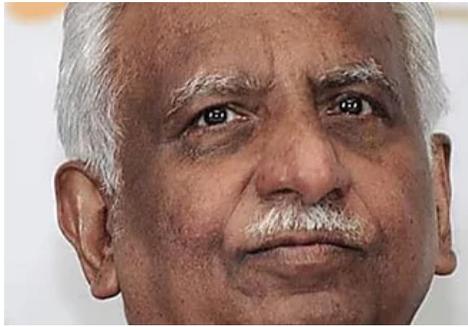
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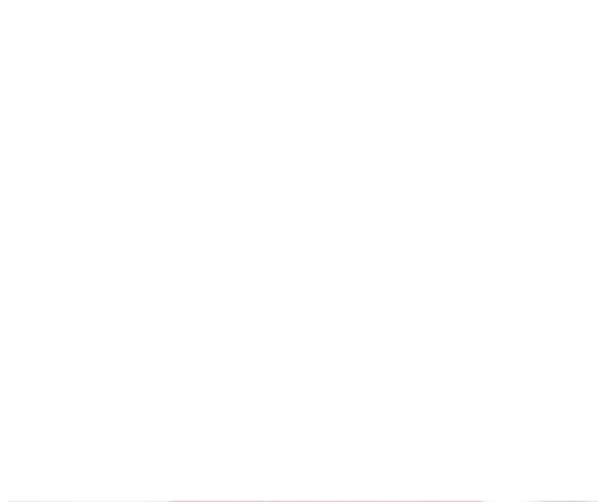
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