

## farm loan waiver: Farm waivers may cut GDP by Rs 1.1L cr

NEW DELHI: Increasing trends of states doling out [farm loan](#) waivers could reduce aggregate demand in the economy by as much as 0.7 per cent, shaving off Rs 1.1 lakh crore from [GDP](#), the second volume of the Economic Survey tabled in Parliament on Friday warned. This, it said, would impart a significant deflationary shock to an economy that has yet to gather its full momentum.

But the predicted impact is the upper limit, as the estimate is based on the assumption that states that have not announced loan waivers will do so. "The actual impact will depend on the number of states that actually decide to grant waivers, and how they distribute them over time," the survey said.

According to the survey, it was assumed that other states could follow the UP model. "On this basis, an upper bound of loan waivers at the all-India level would be between Rs 2.2 lakh crore and Rs 2.7 lakh crore," it said.

# Rising Count

**Farm loan waivers could be ₹2.2-2.7 lakh crore**



**Justification:**

- Two years of inadequate rains followed by large price decline

**Deflationary Impact**

- Up to ₹55,000 crore boost to pvt consumption through loan waiver
- Public sector demand could decline by up to ₹1.9 lakh crore
- States' borrowing could raise interest rates, crowd out private borrowers



Farm loan waivers and declining profitability in the power and telecom sectors would exacerbate the twin balance sheet problem — overleveraged companies and the pile up of bad debt at banks — and weigh on the economy, the survey said. A reduction in private consumption and higher borrowings by states, among others, could affect aggregate demand. Monetary, fiscal and agricultural policies will be the key to counter these deflationary impulses in the year ahead, it

added.

According to the survey, the waivers will affect the aggregate demand in four ways: impact on private consumption via increases in private sector net wealth, impact on the public sector via changes in government expenditure or taxes, crowding out impact via higher borrowings by state governments board crowding in impact via higher credit availability as bank NPAs fall.

" [Loan waiver](#) will increase net wealth of farm households," the survey said. Aggregate increase in income, it estimates, will be 28 per cent, and 7 per cent in consumption — or Rs 55,000 crore.

States with fiscal room for loan waiver will add about Rs 6,350 crore to demand, while those that don't have the space will reduce demand by about Rs 1.9 lakh crore, the survey estimated.

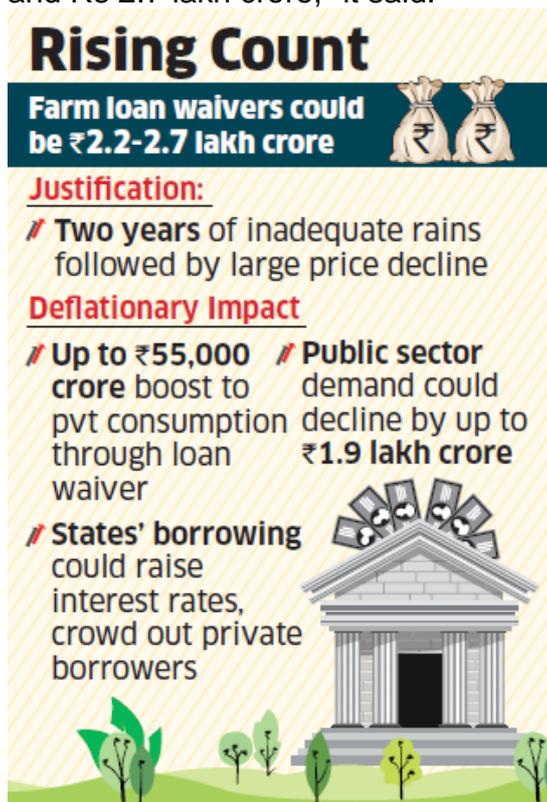
Analysing the crowding out impact, it said loan waiver will result in higher borrowing by states with fiscal space, which could squeeze out private funding. However, bank balance sheets will improve inasmuch as non-performing farm loans are taken off their books.

"So they might be able to provide additional financial resources to the private sector, leading to greater spending. It is estimated that these two effects would almost cancel each other."

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