FARM LOAN WAIVERS

We can only hope that the political narrative and action changes from promising and disbursing fiscally-imprudent doles (such as the loan waivers), to enacting more holistic structural reforms, so that the landless, marginal and small farmers are empowered, in the real sense

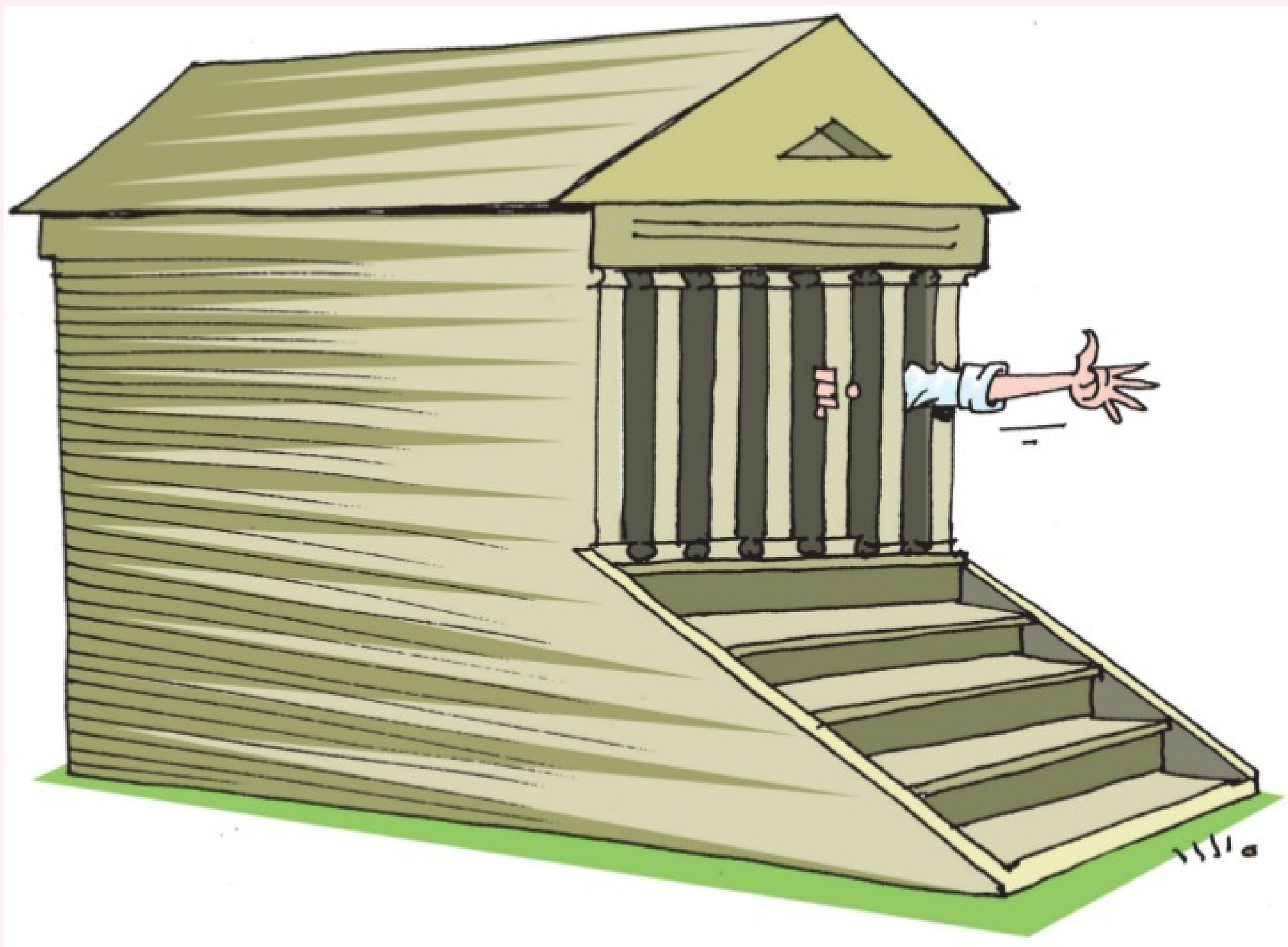
Competitive populism serves none

THE PUBLIC DISCOURSE on farm loan waivers as a solution to agrarian distress has gained currency in recent times, particularly as political parties across the spectrum have begun to engage in one-upmanship in electoral populism—promising farm loan waivers if voted to power. Agrarian distress and the promises of farm loan waivers are likely to be a dominant agenda for the upcoming general elections this year, and one can expect even more aggressive posturing by incumbent subnational governments, across the political spectrum, to signal their credibility to the electorate in effecting such loan waivers.

While political parties have overtly positioned loan waivers as a solution to reduce farm distress, it is easy to see that the promises of waivers have covertly served as a tool to extract political dividends during elections.

The clamour for nationwide implementation of farm loan waivers is convenient political posturing, and does little to help the distressed marginal and small farmers of the country. Let us consider the nature of the indebtedness problem among agricultural households. Data analysed by PRS Legislative Research show that while marginal and small farmers account for 82% of all indebted households and 56% of the outstanding loans by value, more than three-fifths of the marginal farmers borrow from non-institutional sources such as moneylenders, family and friends. On the other hand, 79% of large farmers (who own over 10 hectares of land) have an average outstanding loan of ₹2.9 lakh, about four-fifths of whom borrow from institutional sources such as banks and cooperatives. Therefore, such amnesty exercises have not, and will not, benefit the distressed farmers. Such competitive populism may only provide transitory benefit to the large farmers, to the effect of permanently destroying the credit culture in the economy.

The prognosis of agrarian distress requires understanding of and focus on addressing some of the underlying structural issues plaguing the agricultural sector. Unfortunately, this has not been the real agenda of most political entities in this country, as political exigency has strictly dominated economic rationale in outlining respective policy stances.



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The first relates to the persistence of low farm incomes—attributed to the differential transitions in sectoral shares—measured in terms of output and employment. While the share of the primary sector in GDP has steadily declined from a high of 55% in 1951 to 25% in 1991, and further to around 17% in 2017-18, similar transitions has not happened in the employment pattern across sectors. Agriculture and allied activities continue to employ about 50% of the total workforce, resulting in a sharp decline of factor productivity and incomes. According to the All India Rural Financial Inclusion Survey 2016-17, published by NABARD in August 2018, the average net monthly income of rural households was ₹8,059, of which ₹1,906 (or only about 24%) was accounted for by a government or private job! Clearly, there has been a failure to create enough remunerative non-farm employment opportunities in rural areas, necessitated due to structural transitions in the economy. Therefore, instead of ad hoc measures such as loan waivers, public policies need to be directed towards aligning structural shifts in the economy with labour market outcomes—by focusing on education, training and skill development of rural populace, so that they become equipped for better-paying jobs created in the new economy, in allied or other sectors.

The second concerns the government apathy in addressing basic infrastructure issues in the agricultural sector, which has resulted in repeated episodes of distress in various parts of the country. For example, inadequate irrigation infrastructure continues to render the farmers vulnerable to the vagaries of nature, exposing them to severe income shocks. As analysed and reported in Chapter 6 of the Economic Survey 2017-18, an extreme rainfall shock (defined as rainfall in the bottom two deciles) resulted in reduction of farm revenues during the kharif period by 14.3% in unirrigated areas, compared to only 7% in irrigated areas. Sadly, in the din and bustle of electoral politics, such instructive economic narrative has failed to inform policy agenda and choices.

Third, a piecemeal approach to agricultural reforms has neither resulted in stabilisation of agricultural prices, nor has it boosted agrarian incomes. For example, the ministry of agriculture & farmers' welfare has recently come up with a new model of Contract Farming and Services (Promotion and Facilitation) Act, 2018, based on the erstwhile Agricultural Produce Market Committee Act (APMC 2003) in efforts to reform the agricultural markets. The Act does little to safeguard farmers' interests, particularly the bargaining power of the small and marginal farmers—as profit-maximising private players, driven by economies of scale considerations, are likely to exclude small and marginal farmers with meagre land holdings. Similarly, the crop insurance scheme of the government—the Pradhan Mantri Fasal Bima Yojana (PMFBY)—appears to safeguard the interest of the banks rather than that of the farmer, as available evidence points out that payouts are neither timely, nor in amounts commensurate with their losses. Therefore, strengthening farmers' rights and bargaining powers, particularly of the tenant farmers (mostly landless or marginal farmers), who currently cultivate about 35% of the total agricultural land in the country, can go a long way in reducing agrarian distress.

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Indeed, a study by Abhijit Banerjee, Paul Gertler and Maitreesh Ghatak, published in the *Journal of Political Economy*, showed that the land reforms and agricultural tenancy laws implemented in West Bengal in the late 1970s and early 1980s led to higher agricultural productivity subsequently. The implementation of agricultural tenancy laws, which offered security of tenure to tenants and the regulation on the share of output paid as rent, helped increase farm productivity and incomes through increased bargaining power and sense of security of tenure to the small and marginal farmers. In turn, this substantially reduced distress, as evidenced by very low starvation deaths and farmer suicides in West Bengal, compared to other states in India.

Competitive populism through loan waivers meaningfully serves none—the country or the marginal farmer. We can only hope that the political narrative and action changes from promising and disbursing fiscally-imprudent doles (such as the loan waivers), to enacting more holistic structural reforms—which correct for existing government and market failures in the agricultural sector—so that the landless, marginal and small farmers are empowered, in the real sense.

DATA DRIVE

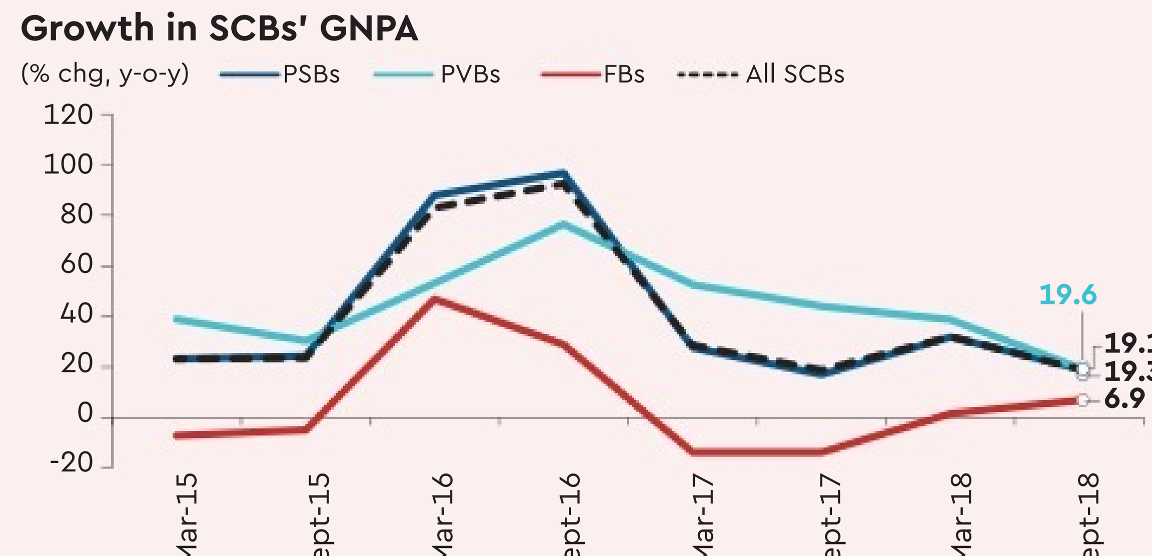
NPA burden of banks getting lighter?

THE ASSET QUALITY of banks is likely to improve, as the latest biannual Financial Stability Report (FSR) of the Reserve Bank of India shows. The gross non-performing assets (GNPA) ratio of all scheduled commercial banks (SCBs) declined to 10.8% in September 2018 from 11.5% in March 2018. Going forward, it is likely to decline to 10.3% in March 2019 and 10.2% in September 2019.

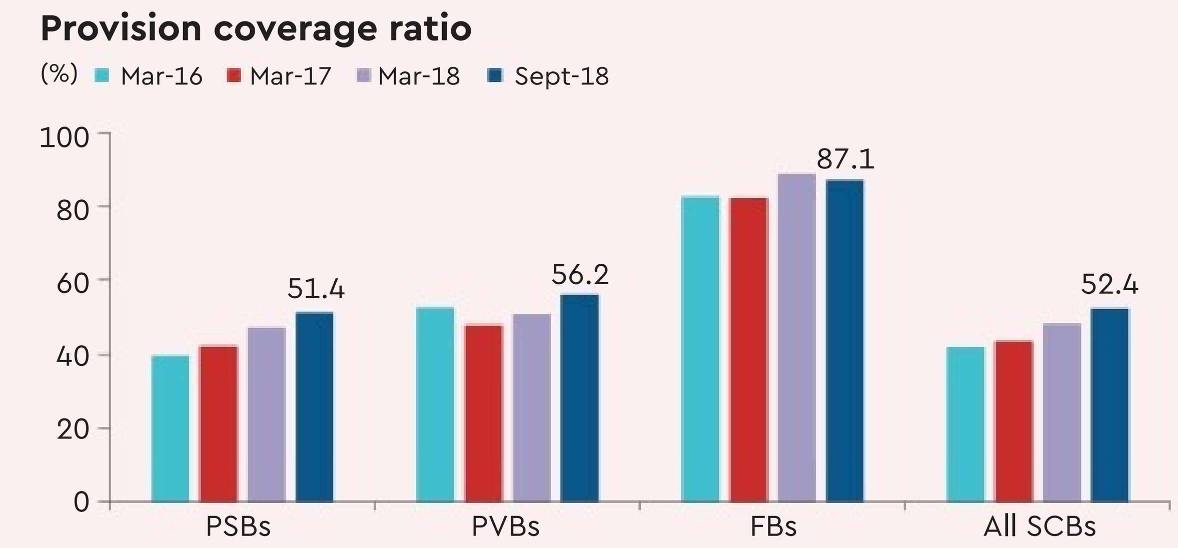
The GNPA ratio of both public and private sector banks showed a half-yearly decline, for the first time since March 2015. The distribution of banks' GNPA ratio shows that the number of banks having GNPA ratio less than 10% has gone down in September 2018 as compared to March 2018.

Sector-wise, the asset quality of industry improved in September 2018 as compared to March 2018 because of a reduction in fresh slippages, but that of agriculture and retail sectors deteriorated.

Growth in SCBs' GNPA

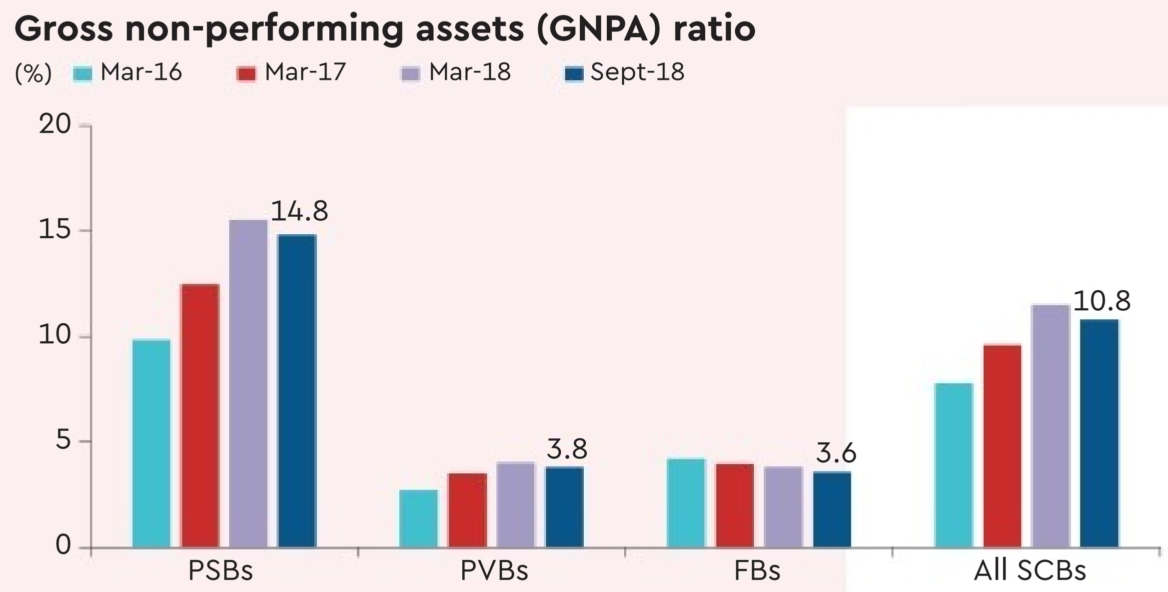


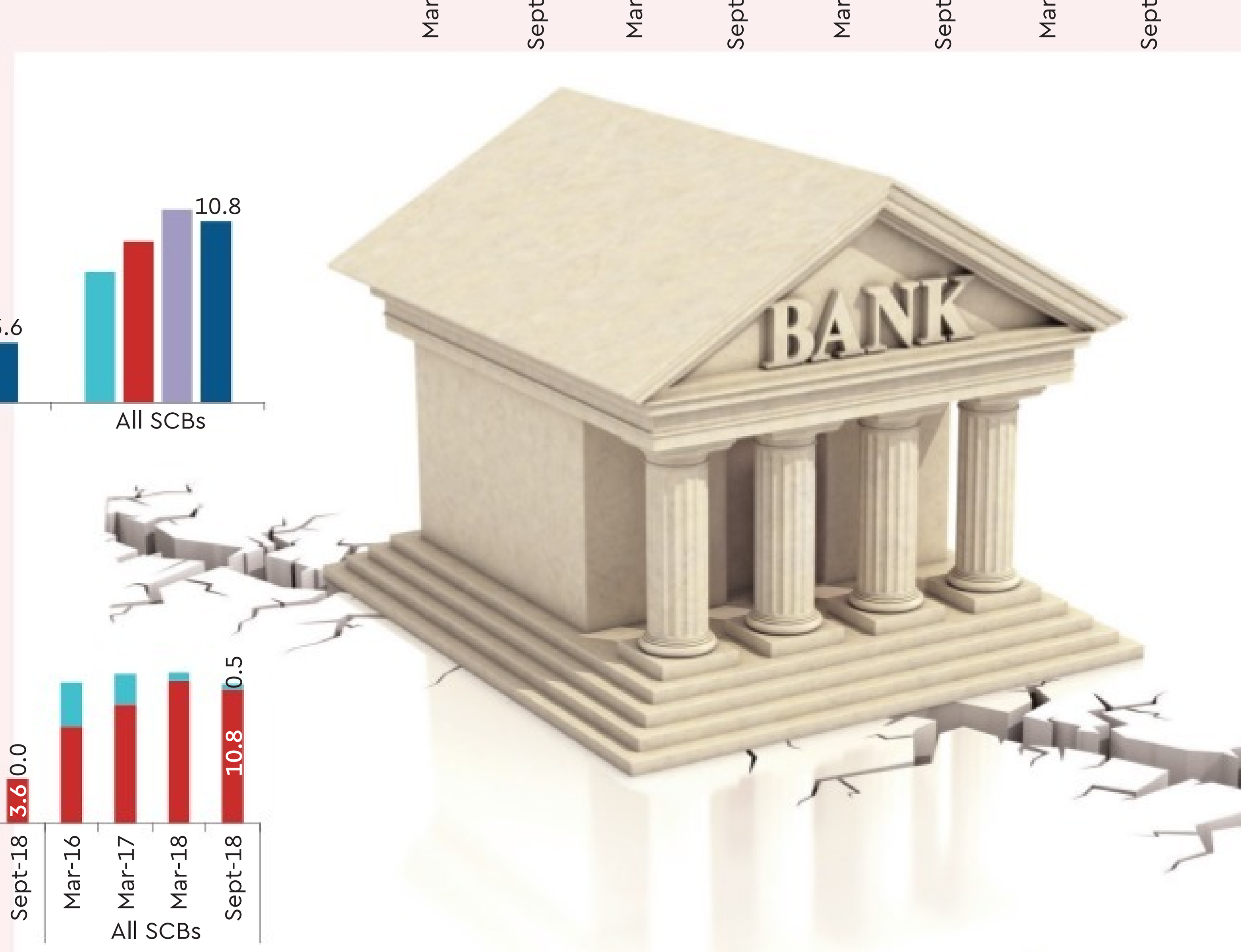
Provision coverage ratio



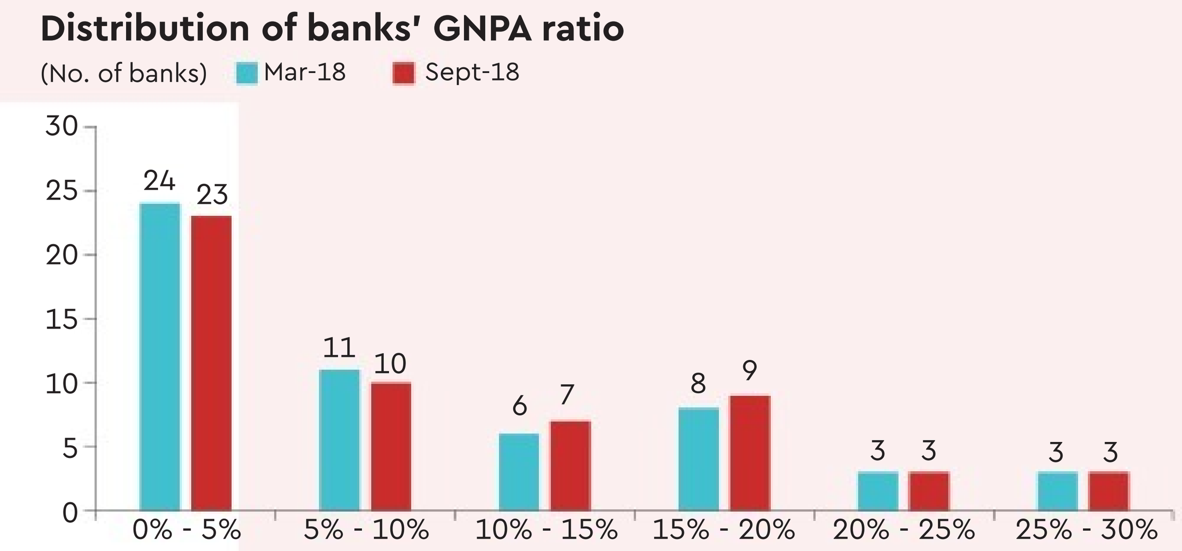
Note: Provision coverage ratio (without write-off adj) = provisions held for NPA*100/GNPAs

Gross non-performing assets (GNPA) ratio



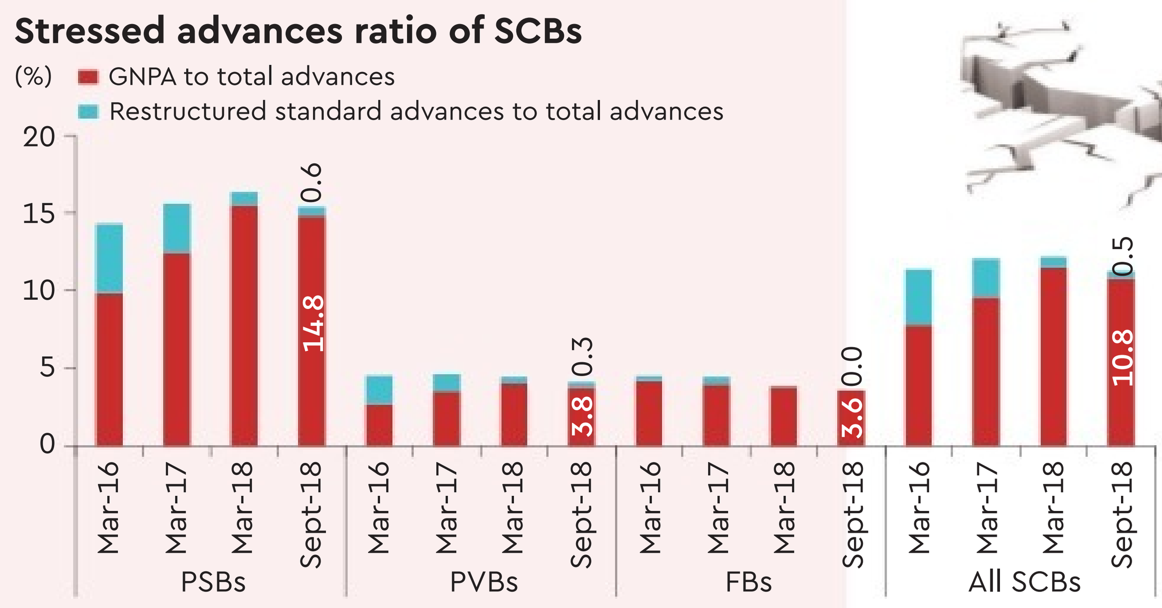


Distribution of banks' GNPA ratio

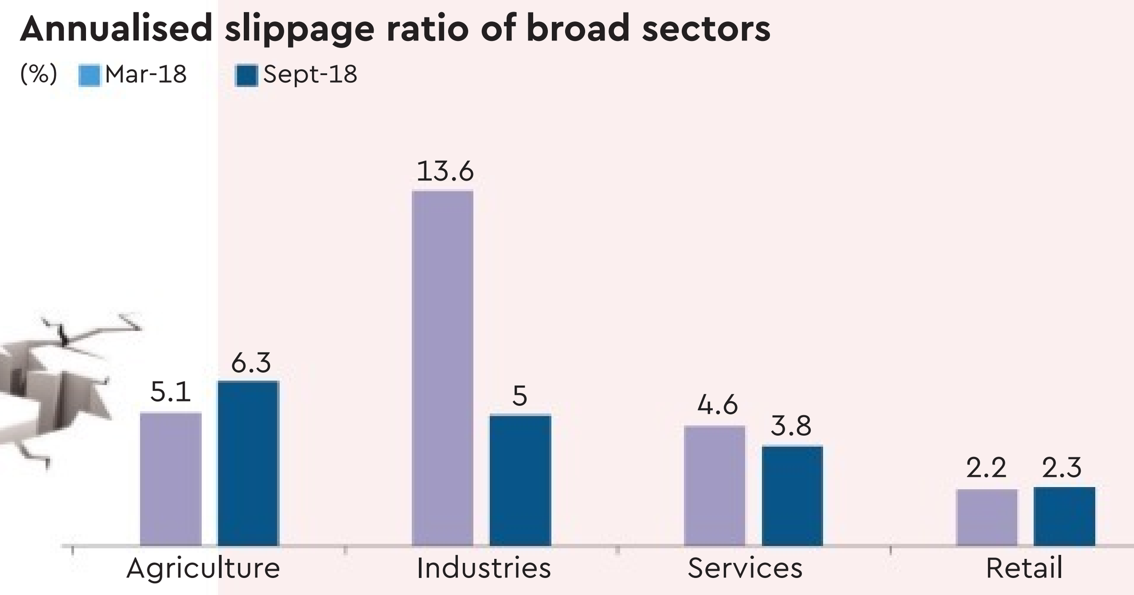


Note: Sample of 55 banks

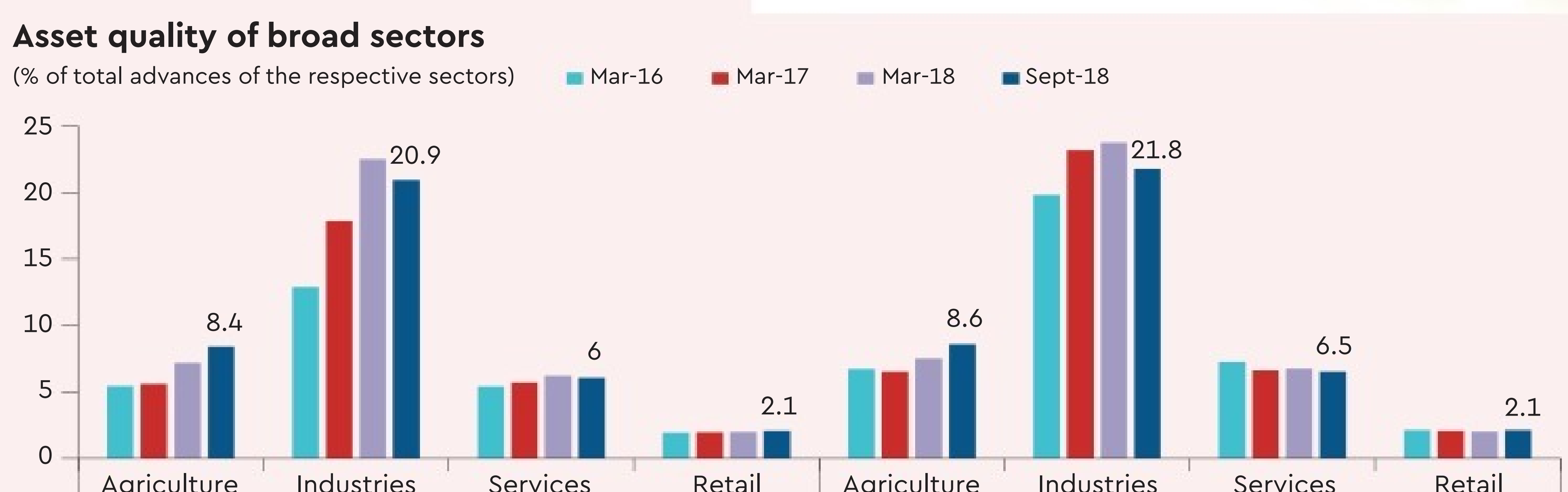
Stressed advances ratio of SCBs



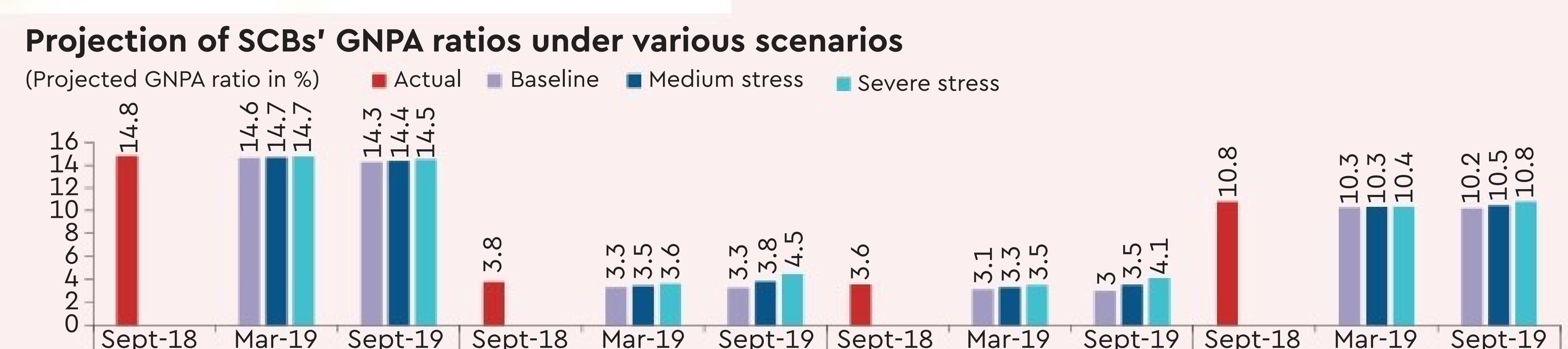
Annualised slippage ratio of broad sectors



Asset quality of broad sectors



Projection of SCBs' GNPA ratios under various scenarios



Note: The projection of system level GNPAs has been done using three different, but complementary econometric models: multivariate regression, vector autoregressive and quantile regression (which can deal with tail risks and takes into account the non-linear impact of macroeconomic shocks). The average GNPA ratios of these three models are given in the chart. However, in the case of bank-groups, two models - multivariate regression and VAR are used.

Source: RBI's Financial Stability Report