

# **FARM LOAN WAIVERS IN INDIA: CAUSES AND IMPLICATIONS**

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## **ABSTRACT**

Recent years have witnessed a large no. of farm loan waivers being announced by various state governments. In this study, we try to find out the factors that motivate the government to announce such waivers. Also, since the waivers are a burden on state exchequer, we also try to investigate how the state finances are impacted because of such policy measures. Our estimates are based on the longitudinal data of 21 states over 18 years (2001-02 to 2018-19). We also estimate the models for a sub-group comprising of non-special category states and a sub-group comprising of only those states that have announced farm loan waivers during this period. Fixed effects and random effects logistic models are used to study the cause(s) behind the announcement of farm loan waiver. And, dynamic panel data model along with fixed effects model is used to study the effects of farm loan waiver on state's finances. We find that election in the current year or in the upcoming year strongly influences the chances of farm loan waiver announcements. Farm loan waiver increases the revenue deficit of the state governments, but the gross fiscal deficit has largely been contained because the expenditure on account of loan waiver is also followed by a cut in discretionary spending of the government, particularly the capital side of the development expenditure.