

India Strategy

Farm loan waivers- Is an all-India mega waiver the next?

In continuation with the legacy, Madhya Pradesh, Assam and Chhattisgarh (CG) announced farm loan waivers in their respective states, bringing the list of states to have declared farmer debt write-off schemes since FY18 to 8. According to media, the cost of the schemes are estimated at i) INR 350-380bn (4.4% of GSDP) for MP, and ii) INR 61bn (1.8% of GSDP) for CG. As far as fiscal profligacy is concerned, since both states i) are eligible for availing additional borrowing limit under the flexibility norm of the 14th Finance Commission (up to 3.5% of their GSDP), ii) have a poor track record of meeting budget targets in the past four years, and iii) saw their 1HFY19 fiscal deficit as % of budget estimates (BE) touch c.2x of what it was last year, these states are likely to discard budget targets in FY19. Nevertheless, this would result in an uptick in rural spending-15.3% YoY (to INR 5.69trn) vs. 11% YoY as per FY19BE (30% YoY in FY18RE). Of this, loan waivers would amount to 0.34% of India's GDP (INR 631.5bn) in FY19, if we assume that 50% of the announced amounts by these two states materialises this fiscal. Going forward, i) BJP's loss in state elections for three key majorly rural states (MP, Rajasthan and Chhattisgarh), and ii) food deflation for two consecutive months, have heightened the possibility of an all-India farm loan waiver, notwithstanding the i) constrained resources of the Centre (our internal estimates suggest 20bps slippage), and ii) failure of the 2008-09 Agricultural Debt Waiver & Debt relief Scheme (ADWDRS) to achieve its intended outcome (CAG). This has put the general govt. consolidated fiscal deficit target under additional pressure.

- The legacy of farm loan waivers:** Three more states, namely Madhya Pradesh, Chhattisgarh and Assam have joint the list of states to announce farm loan waivers in their respective states. In FY18, five states -Maharashtra, Punjab, Karnataka, UP, and Rajasthan announced farmer debt-write-off schemes. Besides these, AP and Telangana continued to make provisions for farm debt waiver schemes (announced in FY15) until FY19 due to staggered implementation the same. The total out-standing agri-loan by scheduled commercial banks was INR 10.3tn (12% of overall credit) at Mar'18 with INR 3.5tn out-standing for small borrowers
- Impact on state fiscal:** Madhya Pradesh, and Chhattisgarh, together account for 6% of the India's GDP. Currently, the estimated costs of the farm loan waiver are i) INR 350-380bn in MP, and ii) INR 61bn in CG. Since these amount to c.4.4% and 1.8% their respective GSDPs, staggered implementation is the key to limit fiscal profligacy. MP and CG had budgeted for a fiscal deficit-to-GSDP ratio of 3.24% and 2.96% respectively (Exhibit 1), but can extend this up to 3.5% as they are both eligible for availing additional borrowing limits as per the 14th Finance Commission. Up to 1HFY19, both MP and CG were running ahead of the gross fiscal deficit as % of BE vis-à-vis last year- i.e- i) MP's GFD had touched 68% of BE (2.2% of GDP) vs. 42% last year, and ii) CG touched 65% (1.9% of GDP), vs. 28% last year (exhibit 2). This can be understood as both states implemented populist schemes prior to elections (MP's power waiver scheme, distribution of freebies in CG). These, along with the poor track record of meeting budget targets for both states (exhibit 3,4), hints that the govt. in these states could discard fiscal targets and engage in spending.
- Robust rural spending:** As per State budgets 2018-19, rural spending stands at INR 5.49trn, exhibiting a growth of 11% YoY vs. 30% in FY18RE. Assuming that 50% of the announced amounts by these two states materialises in FY19, we estimate rural spending to surge by 15.3% YoY to INR 5.69trn. The total fiscal boost from waiver schemes in states mentioned in Exhibit 7, amounts to INR 426bn in FY19BE; i.e. 48bps of combined GSDP. With the above assumption this number could rise to INR 631.5bn (0.63% of the combined GSDP for these states; 0.34% of India's GDP).
- Are we heading towards an All-India farm loan waiver?** With- i) BJP's loss in state elections for three key majorly rural states (MP, Rajasthan and Chhattisgarh), and ii) food deflation for two consecutive months, fears of an all-India farm loan waiver have heightened. However, given the i) resource availability of the Centre (our internal estimates suggest a slippage of 20bps), and ii) limited success of the Agricultural Debt Waiver & Debt relief Scheme (ADWDRS) in 2008-09 due to i) the beneficiary list being full of errors as banks were required to display the same on their notice boards within a month of the issuance of the guidelines of the scheme, ii) ambitious targeting of c. 42.9mn farmer accounts, ii) lack of adequate infrastructural facilities at remote banks, iii) poor and inadequate documentation, iv) tampering/overwriting/alteration of records, v) funds lying idle with lending institutions, vi) non-issuing of debt waiver/relief certificates and vi) ineffective monitoring of scheme, the benefits of such a nationwide waiver remains questionable.

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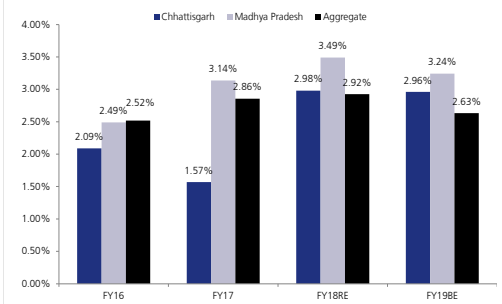
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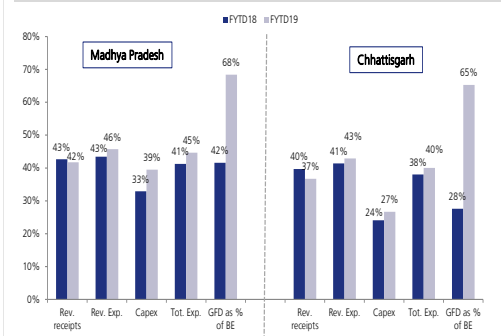
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Exhibit A. Both states are eligible to reach a GFD-to-GSDP ratio of 3.5% of GSDP



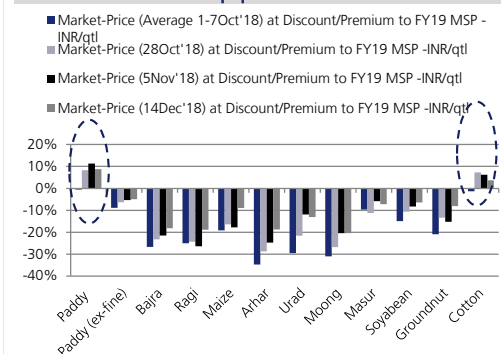
Source: CAG, JM Financial

Exhibit B. State of finances up to 1HFY19 Actuals as % of BE



Source: CAG, JM Financial

Exhibit C. Weak crop prices



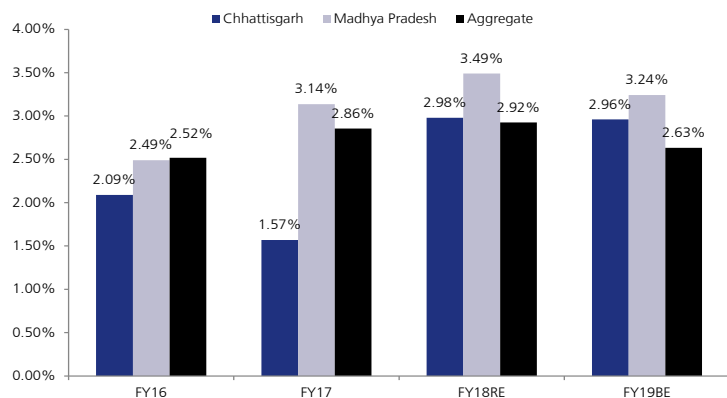
Source: CAG, JM Financial

* the i) SCB, ii) RRB, iii) Cooperative credit institution, iv) urban cooperative bank and v) local area bank

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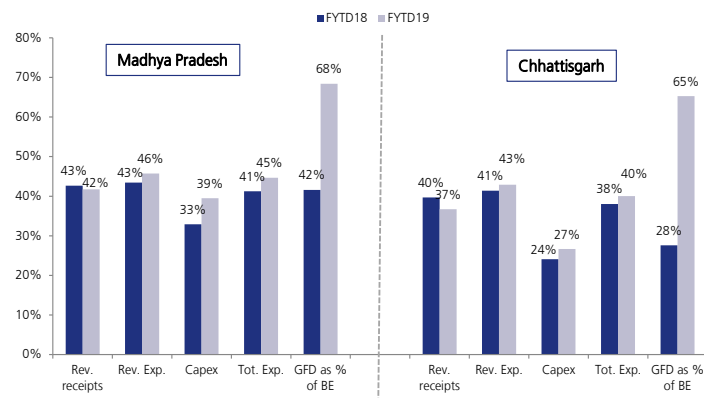
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Exhibit 1. Budgeted GFD-to-GSDP ratio for MP and CG



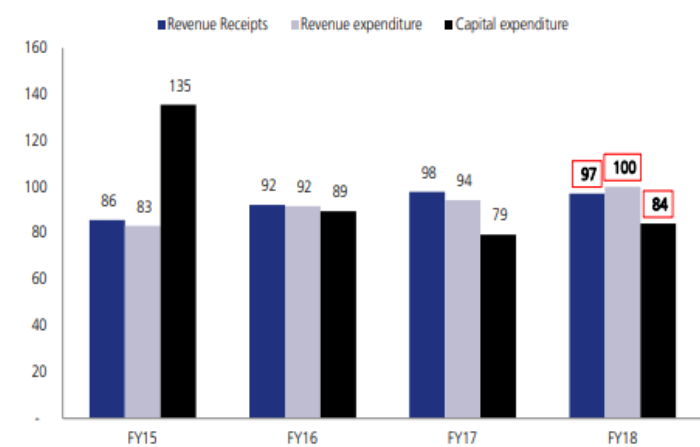
Source: State budgets, JM Financial; * Aggregate for 17 states

Exhibit 2. State of finances up to 1HFY19- Actuals as % of BE



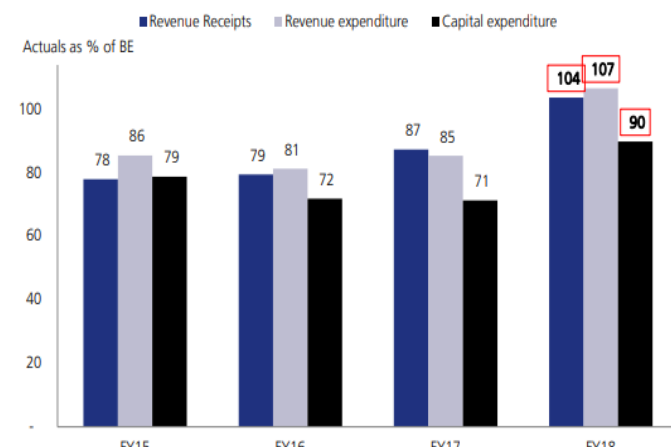
Source: CAG, JM Financial

Exhibit 3. MP actuals as % of BE



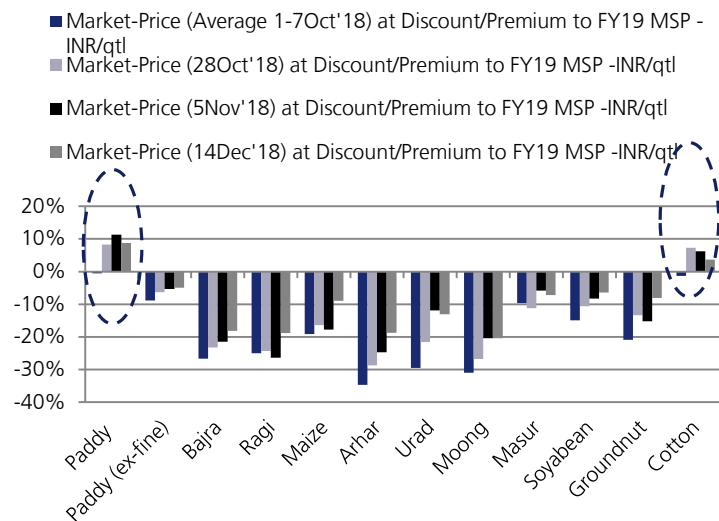
Source: State budgets, JM Financial

Exhibit 4. Chhattisgarh actuals as % of BE



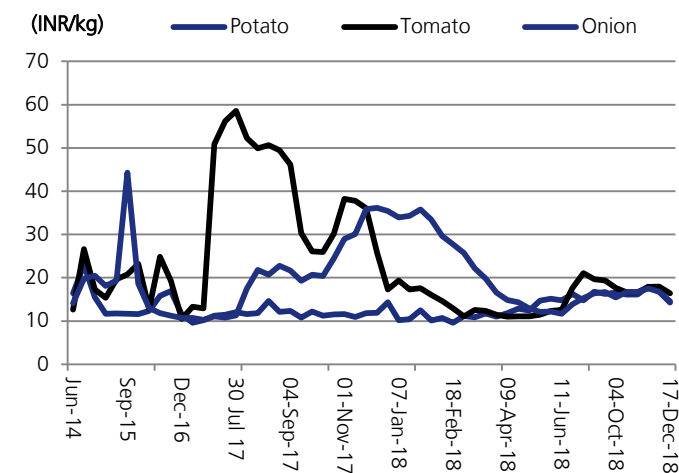
Source: State budgets, JM Financial

Exhibit 5. Weak crop prices – Prices of most crop remain at discount to MSP



Source: Agmarknet, JM Financial

Exhibit 6. Whole sale prices of vegetables – Continues to remain low on YoY basis



Source: Ministry of Consumer and PDS, JM Financial

Farm loan waivers announced in the past few years

Exhibit 7. Budgeted allocations for the on-going farm loan waivers in FY19 amount to 48bps of the combined GSDP of these states

INR bn	FY15	FY16	FY17	FY18RE	FY19BE	Total	% of FY19 GSDP	Comments
Andhra Pradesh	50*	7	35	36	41	170	0.47%	AP had announced a farm loan waiver in FY15 where it intended to waive loans taken between April 1, 2007 to Dec 31, 2013, and outstanding (including interest) as on Mar 31, 2014. In case the beneficiary had already repaid the loan, the waiver amount would be credited to him. AP had staggered the implementation of loan waiver. Loans up to Rs50,000 were waived off completely in first phase (started Dec 2014), while for amounts exceeding Rs50,000 it will be waived in four instalments over next four years
Karnataka	-	-	-	39	40	79	0.75%	Karnataka had announced a farm loan waiver programme in FY18 to pardon short-term agricultural loans up to INR 50,000 of the outstanding short-term agricultural loan as on 20Jun'17 availed through co-operative societies, with a total cost of INR 81.65bn, benefiting 2.2mn farmers Additional Karnataka farm loan waiver worth INR 350bn, with a provision of INR 65bn in FY19
Rajasthan	-	-	-	-	20	20	0.21%	Rajasthan became the fifth state to announce a farm loan waiver on 14Sep'17 in FY18. While media had estimated the scheme to cost the state exchequer around INR 200bn, the state has reported a cost of INR 80bn. The state has not made adequate provisions for the same. The scheme intends to waive outstanding debt of crop loans (up to 30Sep'17) for small and marginal farmers from co-operative banks up to a maximum limit of INR 50,000 per farmer.
Telangana	42	40	40	32	-	154	0.0%	Telangana had announced a farm loan waiver in FY15 to waive off crop loans of 3.5mn farmers. The implementation of the same was staggered over a period of four years ending FY18. While the total budgetary provisions add to INR 154bn, the budget speech mentions the total waiver cost to amount to INR 161bn.
UP	-	-	-	250	116	366	0.78%	UP was the first state to announce a farm loan waiver in FY18 on 4Apr'17, where it intended to waive off outstanding crop loans for all small and marginal farmers taken from 31Mar'16 until 31Mar'17, with a limit of 0.1mn per beneficiary. UP had made budgetary provisions of the entire INR 360bn in FY18BE at the cost of capex. This had been split according to the type of beneficiary i.e. a) a special package of INR 36bn for farmers belonging to backward classes and b) INR 324bn for the remaining farmers The 2018-19 budget however reveals that not only has this allocation been staggered over FY18 (INR 250bn) and FY19 (INR 116bn) while reallocating funds for capex, but also increased from INR 360bn to INR 366bn.
Punjab	-	-	-	4	43	46	0.83%	On 19Jun'17, the state govt. announced a total waiver of all crop loans for small and marginal farmers in Punjab up to INR 0.2mn each. In the state budget 2017-18, Punjab had just made an initial provision of INR 15bn, awaiting the report of an Expert Committee for details of the implementation of the debt redemption scheme in the state. In the state budget 2018-19, the state has reduced the provision for FY18 to INR 3.7bn and made an additional provision worth INR 42.5bn in FY19; bringing the total cost of the loan waiver scheme to INR 46.2bn - approximately 82bps of the GSDP - vs. the initial cost estimated by NDTV as INR 250bn
Maharashtra	-	-	-	167	101	268	0.36%	On 11Jun'17, Maharashtra announced to write off the outstanding debt for small and marginal farmers on all crop loans taken between 1Apr'12 and Jun'16 with an INR 0.15mn limit per beneficiary. Apart from this, regular loan payers would be given a bonus of INR 250bn or 25% of loan paid, whichever is higher, under a one-time special. At this time the cost of the waiver was estimated at INR 340bn. However, later (5Jul'17), the state relaxed the eligibility criteria by providing debt relief to farmers indebted after 1st Mar'08. Further, on 27Jul'17, there was another notification regarding extending waiver for the families of serving army Jawans who are engaged in farming. Those farmers whose loans were restructured will also benefit from the scheme now. As per the economic survey, online applications from eligible farmers were invited up to 22nd September, 2017. Accordingly, 4.7mn farmers were found eligible for receiving loan waivers, one time repayment and incentive amount under the scheme. Up to 6Mar'18, banks had passed on INR 138bn to 3.6mn beneficiaries. As per the budget, INR 167bn and INR 101bn have been budgeted for the scheme FY18RE and FY19BE
Total	92	48	75	527	426	1,168	0.48%*	Fiscal boost through waivers in the past five years exceeds INR 1.2trn.

Source: State budgets, JM Financial, Note: Andhra Pradesh & Telangana had staggered there farm loan waiver announced during 2014; * 25bps as % of aggregate GDP for 17 states

In the past one week, Madhya Pradesh has announced a farm loan waiver estimated to be of INR350-380bn, Chhattisgarh for INR61bn and Assam of INR6bn. Details around eligibility criterion are yet awaited.

Exhibit 8. Snapshot of agriculture credit by scheduled commercial banks (Mar'18) – INR3.5tn for small borrowers (less than 0.2mn), and overall INR10.3tn of out-standing loans (12% of overall credit)

State	Number of Small borrower accounts (mn)	Number of Total borrower accounts (mn)	Out-standing for small borrowers (INR bn)	Out-standing for all borrowers (INR bn)	Share by states of Out-standing for small borrowers (%)	Share of Out-standing for all borrowers (%)
Tamil Nadu	14.8	15.8	809	1,351	23.1%	13.1%
Andhra Pradesh	6.2	7.1	407	911	11.6%	8.8%
Uttar Pradesh	5.1	6.6	311	906	8.9%	8.8%
Maharashtra	4.7	5.9	264	958	7.5%	9.3%
Karnataka	3.5	4.6	226	809	6.5%	7.8%
Kerala	3.8	4.5	249	550	7.1%	5.3%
West Bengal	3.9	4.0	152	310	4.3%	3.0%
Bihar	3.1	3.3	151	233	4.3%	2.3%
Rajasthan	1.9	3.2	148	688	4.2%	6.6%
Telangana	2.8	3.1	179	493	5.1%	4.8%
Madhya Pradesh	1.9	2.9	143	582	4.1%	5.6%
Gujarat	1.3	2.1	91	511	2.6%	4.9%
Odisha	1.8	1.9	77	128	2.2%	1.2%
Assam	1.6	1.7	65	96	1.8%	0.9%
Punjab	0.7	1.6	50	660	1.4%	6.4%
Haryana	0.6	1.2	43	402	1.2%	3.9%
Jharkhand	1.1	1.1	38	56	1.1%	0.5%
Chhattisgarh	0.4	0.5	21	91	0.6%	0.9%
Uttarakhand	0.3	0.4	16	77	0.5%	0.7%
Jammu & Kashmir	0.2	0.3	15	56	0.4%	0.5%
Tripura	0.3	0.3	12	18	0.3%	0.2%
Himachal Pradesh	0.2	0.3	15	53	0.4%	0.5%
Puducherry	0.2	0.2	11	18	0.3%	0.2%
Meghalaya	0.1	0.1	3	6	0.1%	0.1%
Goa	0.0	0.0	3	7	0.1%	0.1%
Nagaland	0.0	0.0	2	3	0.0%	0.0%
Manipur	0.0	0.0	2	4	0.1%	0.0%
Delhi	0.0	0.0	1	334	0.0%	3.2%
Mizoram	0.0	0.0	1	1	0.0%	0.0%
Sikkim	0.0	0.0	1	1	0.0%	0.0%
Arunachal Pradesh	0.0	0.0	1	2	0.0%	0.0%
Chandigarh	0.0	0.0	0	24	0.0%	0.2%
Andaman & Nicobar Islands	0.0	0.0	1	1	0.0%	0.0%
Dadra & Nagar Haveli	0.0	0.0	0	1	0.0%	0.0%
Daman & Diu	0.0	0.0	0	0	0.0%	0.0%
Lakshadweep	0.0	0.0	0	0	0.0%	0.0%
All India	60.7	72.7	3,506	10,343	100.0%	100.0%

Source: RBI, JM Financial, Note: Small borrowing account with limit of INR0.2mn per account

Exhibit 9. Summary Credit statistics for agriculture loans by scheduled commercial banks

	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18	Jun-18	CAGR (Mar-14 to Mar-18)
Number of Small borrower accounts (mn)	45.5	48.7	53.5	55.1	60.7	61.5	7.4%
Number of Total borrower accounts (mn)	53.6	57.6	63.4	66.1	72.7	12.3	7.9%
Out-standing for small borrowers (INR bn)	2,768	3,059	3,218	3,418	3,727	3,763	7.7%
Out-standing for all borrowers (INR bn)	7,366	7,823	8,625	9,302	10,343	10,244	8.9%

Source: RBI, JM Financial

Exhibit 10. Average agriculture loan size per borrower from scheduled commercial banks

State	Average loan size (INR) - Small borrower		Average loan size (INR) - All borrower	
	Mar-14	Mar-18	Mar-14	Mar-18
Gujarat	69,259	75,118	2,967,664	1,828,737
Madhya Pradesh	81,887	79,730	395,884	424,349
Punjab	83,533	78,529	174,816	215,527
Odisha	39,541	44,577	175,798	213,920
Chhattisgarh	58,588	58,768	248,703	185,484
West Bengal	40,171	41,661	164,301	176,898
Rajasthan	77,652	82,573	135,592	167,004
Haryana	90,743	82,156	155,185	165,018
Bihar	49,337	51,106	183,834	151,521
Tamil Nadu	63,536	58,006	114,888	137,595
Assam	36,851	42,169	105,610	128,657
Jharkhand	30,300	37,903	117,820	123,127
Goa	60,386	73,446	81,194	119,061
Andhra Pradesh	59,244	70,141	84,077	108,769
Uttarakhand	58,643	62,245	103,889	101,485
Maharashtra	61,169	59,338	114,622	101,014
Kerala	65,061	68,876	69,100	86,695
Uttar Pradesh	60,015	64,840	86,531	70,606
Telangana		68,752	51,761	65,810
Himachal Pradesh	62,206	71,876	57,429	57,394
Karnataka	65,963	68,436	47,758	53,982
ALL INDIA	60,777	61,395	137,371	142,272

Source: RBI, JM Financial

Exhibit 11. Issues around rural/agri to remain in forefront as we go ahead to the general elections in the coming few months

Serial No.	State	Likely period of elections	Incumbent political party	Incumbent group
2019				
1	Andhra Pradesh	Apr/May-19	TDP	OTH
2	Odisha	Apr/May-19	BJD	OTH
3	Arunachal Pradesh*	Apr/May-19	BJP	NDA
4	Sikkim	Apr/May-19	SDF	NDA
	General Elections	Apr and May-19	BJP	NDA
5	Maharashtra	Oct-19	BJP	NDA
6	Haryana	Oct-19	BJP	NDA
7	Jharkhand	Nov/Dec -19	BJP	NDA
8	Jammu and Kashmir	TBD	PDP	NDA*

Source: Election Commission, JM Financial, Note * (a) INC had formed the government in state, but later on the party split and members joined BJP

Exhibit 12. General Election schedule over the past few years – Expect notification in early March'19 for the upcoming general elections

Year of General Elections	Date of notification by Election Commission	Start date of polling	End date of Polling	Date of Counting
1998	01-Jan-98	16-Feb-98	28-Feb-98	08-Mar-98
1999	11-Jul-99	04-Sep-99	01-Oct-99	06-Oct-09
2004	29-Feb-04	20-Apr-04	10-May-04	13-May-04
2009	02-Mar-09	16-Apr-09	13-May-09	16-May-09
2014	05-Mar-14	07-Apr-14	12-May-14	16-May-14

Source: Election Commission, JM Financial

APPENDIX I

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(formerly known as JM Financial Securities Limited)

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