

## **Rajan cautions against debt waiver schemes**

**RBI Governor Raghuram Rajan stressed on the adverse impact of schemes like farm loan waivers on the financial health of banks**

Reserve Bank of India (RBI) Governor Raghuram Rajan has cautioned against the debt waivers proposed by some state governments such as those of Andhra Pradesh and Telangana. He pointed to the adverse impact of such schemes on the financial health of banks, whose capital needs had risen due to enhanced prudential requirements and deterioration in asset quality.

In his address at a conference of state secretaries, Rajan stressed the need to strengthen state-level coordination committees (SLCCs) by ensuring participation, conducting meetings more frequently and sharing quality information among all stakeholders, including state government agencies. “SLCCs should focus on financial inclusion for the flow of public savings to formal channels and protection of deposits of the public mopped up by unauthorised and unscrupulous entities,” he said.

Banks have seen a rise in non-performing assets, especially the case of farm loans in Andhra Pradesh and Telangana. Earlier, State Bank of India Chairman Arundhati Bhattacharya had said payment discipline had deteriorated, impacting the asset quality of banks in the quarter ended June.

In the case of Andhra Pradesh and Telangana, which were hit by cyclone Phailin last year, it was discovered damage to the crop didn't merit a debt waiver, Rajan had said earlier.

During the recent Assembly and general elections, Andhra Pradesh Chief Minister Chandrababu Naidu and his Telangana counterpart K Chandrasekhar Rao had promised farm loan waivers. The Andhra Pradesh government had said the loan waiver would benefit about 4,000,000 families in the state, which depended on agriculture. For these families, it plans to waive loans of up to Rs 1.5 lakh, including loans against gold.

According to RBI norms, rescheduling of loans is typically allowed only if the crop yield is less than 50 per cent. For several districts across Andhra Pradesh and Telangana, this wasn't the case.

In his address on Monday, Rajan also pointed to the challenges faced by the country, including issues related to India's current account deficit, the growth slowdown, fiscal consolidation and inflation management. The decline in savings, he said, had to challenges in debt management.

Rajan also elaborated the steps taken by RBI to restore confidence in the macro economy. He also referred to the decline in financial savings which has led to the challenges in debt management.

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