

## Fertiliser Subsidy Burden in India & Global Supply Crunch

*Mains: GS Paper III | Economy*

### Why in News?

*Geopolitical conflict in West Asia has triggered a sharp surge in global commodity prices, directly impacting India's internal economic mathematics.*

### What are the fertilisers used in India?

- **Fertilizers** - Fertilizers act as critical agricultural inputs by supplying essential **macro-nutrients** to replenish soil health, maximize crop yield, and fortify national food security.
- The Indian agrarian economy leans heavily on an optimized ratio of **Nitrogen (N), Phosphorus (P), and Potassium (K)**.
- The primary chemical formulations driving Indian agriculture include
  - **Urea** - The most heavily utilized nitrogen-based fertilizer. It serves as a vital input for primary staple crops like rice and wheat, as well as commercial crops like sugarcane.
  - **Di-Ammonium Phosphate (DAP)** - The premier source of concentrated phosphorus and nitrogen, essential for root development and early-stage plant growth.
  - **Muriate of Potash (MOP)** - The primary potassium input, crucial for disease resistance, water regulation, and overall crop quality.
  - **NPK Complex Fertilizers** - Multi-nutrient compound formulations customized to specific agro-climatic zones to deliver balanced soil nourishment.

### What is the Current situation of India's Fertiliser Dependence?

- The Central Government's fertiliser subsidy bill is projected to double to a record Rs. 3.4 trillion in FY27, up from the initially budgeted estimate of Rs.1.7 trillion.
- Simultaneously, revenue adjustments made to protect domestic fuel consumers have heavily constrained India's fiscal space.

- India remains one of the world's primary consumers and importers of agricultural nutrients, creating a structural vulnerability to external economic shocks.

## The Dual Subsidy Architecture

- To protect agrarian livelihoods and sustain domestic food security, the government coordinates pricing under two distinct systems:
- **Urea Subsidy Regime** - Urea is sold at a rigidly fixed, administratively controlled Maximum Retail Price (MRP) of approximately Rs.268 per 45-kg bag.
- The government directly absorbs the entire differential between the market cost (production or import) and this fixed price.
- **Nutrient-Based Subsidy (NBS) Scheme** - Deployed since April 2010 for non-urea variants like DAP and MOP.
- Here, the state provides a ***fixed subsidy per kilogram*** based on the nutrient content (N, P, K, and Sulphur), allowing market forces to determine flexible retail MRPs.
- **Delivery Mechanism** - Since 2018, subsidies are routed via a ***Direct Benefit Transfer (DBT)*** model.
- Subsidies are disbursed directly to manufacturing companies only after the actual transaction is authenticated and recorded through Point of Sale (PoS) terminals at retail outlets.

## What is the Dual Shock on India's Fiscal Space in FY27?

- The escalation of conflict in the Middle East has squeezing the fiscal math through both expenditure overruns and revenue cutbacks:
- **The Fertiliser Subsidy Spike** - Global raw material and import costs have surged, forcing an anticipated **100% budget expansion** from Rs.1.7 trillion to a historic high of Rs.3.4 trillion.
- This exceeds the previous post-pandemic high of Rs.2.5 trillion recorded in FY23 during the Russia-Ukraine war.
- **Fuel Revenue Foregone** - To cushion retail consumers from surging crude costs, the state implemented a special additional excise duty (SAED) cut of Rs.10 per litre on petrol and diesel.
- This intervention compensated oil marketing companies (OMCs) for an initial 78-day period of domestic under-recoveries, causing an additional revenue dent of Rs. 1.23 trillion.

## What is the Counter-Cyclical Strategies & Fiscal Resilience?

- Despite a cumulative unexpected hit of nearly Rs. 3 trillion, the macroeconomic foundation remains stable due to targeted financial maneuvers.
- **Protecting Capital Expenditure** - The government has refused to alter or compromise its ambitious Rs.12.2 trillion capital expenditure blueprint for FY27, ensuring long-term asset-creation and productivity are not sacrificed for short-term consumption shocks.
- **No Supplementary Demands Needed** - Because global turbulence was partially anticipated during the initial formulation of Budget 2026-27, the expenditure mismatch does not require immediate supplementary grants in the Monsoon Session of Parliament.
- **Stepping Up Asset Disinvestment** - The Department of Investment and Public Asset Management (DIPAM) has accelerated weekly minority stake sales in listed Public Sector Units (PSUs) via the Offer for Sale (OFS) path.
- DIPAM has generated Rs.18,533 crore in the first 3 months of FY27 alone, achieving 23% of its annual miscellaneous capital receipts target of Rs.80,000 crore.
- **Deepening the Debt Market & Defending the Rupee** - To counteract capital outflows and a depreciating rupee, the Ministry of Finance and the RBI have synchronized policies to encourage Foreign Portfolio Investment (FPI).
- This includes structural reforms and tax exemptions to facilitate the seamless entry of Indian Government Securities (G-Secs) into major benchmark arrays, including ongoing negotiations for inclusion in the \$3 trillion Bloomberg Global Aggregate Index by mid-2026.

### **What is the way forward?**

- Despite the external fiscal headwinds, India's broader growth fundamentals exhibit notable insulation.
- Riding on strong domestic demand, manufacturing, and resilient services, the real Gross Domestic Product (GDP) delivered a robust growth print of 7.8% in the final quarter of the preceding fiscal year (Q4 FY26).
- Moving forward, maintaining this trajectory will require a delicate structural balance, accelerating domestic fertiliser synthesis (such as expanding nano-urea and coal-gasification alternatives) to insulate the fiscal balance from geopolitical vulnerabilities, while keeping the structural capex engine firing.

### **Reference**

[Business Standard | Fertiliser subsidy bill Doubled](#)

