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]