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# The Subsidy Trap — How India Can Reform Agricultural Support Without Abandoning Food Security

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GS3

GS2



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MAINS RELEVANCE:

GS Paper 3

GS Paper 2



## INTERVIEW ANGLE

*"Agricultural subsidies consume 8.5 percent of India's budget, yet hunger and agrarian distress persist. Is the problem one of scale or of design? How can India reform subsidies without creating a political and food security crisis?"*

## WHY IN NEWS

With food and fertilizer subsidies consuming Rs 3.71 lakh crore in FY 2025-26 — over 8.5 percent of the total budget — and MSP procurement payouts tripling over the past decade, India's agricultural subsidy architecture is under renewed scrutiny. Yet with 813 million people dependent on PM Garib Kalyan Yojana's free grains, and the farm loan waiver debate surfacing ahead of state elections, any reform faces political and humanitarian constraints that make simple fiscal consolidation arguments look naive.

## THE ARITHMETIC OF SUBSIDY DEPENDENCE

India's agricultural support system has grown to extraordinary scale. The combined food and fertilizer subsidy bill for FY 2025–26 stands at **Rs 3.71 lakh crore** — exceeding what India spends on health, education, and infrastructure individually. The food subsidy alone (Rs 2.03 lakh crore) reaches **813 million people** through PM Garib Kalyan Anna Yojana, which provides 5 kg of free grains per month per person. MSP procurement payouts, which have tripled over a decade, reached **Rs 3.33 lakh crore by June 2025**.

This is not a story of an irresponsible government. It is a story of a government managing an extraordinary structural reality: a country where 50% of the workforce is in agriculture, where per capita income in farming households is less than half of non-farm households, and where memory of famine (the last major one in 1943 in Bengal, but near-famine events as late as the 1960s) shapes food policy choices at every level.

The subsidy system exists because without it, food would be unaffordable for a quarter of the population, fertilizer prices would double or triple overnight (eliminating crop yields for marginal farmers), and rural incomes would collapse. These are not hypothetical risks. The 1991 reforms that reduced fertilizer subsidies triggered price spikes and agrarian distress that informed policy caution for the next three decades.

## WHAT IS ACTUALLY WRONG WITH THE CURRENT SYSTEM

The problem is not that subsidies exist — it is that **the current design is inefficient, regressive in its coverage, and environmentally damaging.**

### THE UREA PROBLEM

India subsidises urea (nitrogen fertilizer) at flat rates regardless of soil needs, farm size, or income level. The result:

- 20–25% of subsidised urea** is diverted to non-agricultural uses (plywood, chemical industries, adulteration)

- Farmers over-apply nitrogen, degrading soil health (India's ideal N:P:K application ratio is 4:2:1; actual application is heavily skewed toward N)

- Large farmers benefit proportionally more (they buy more fertilizer) — a subsidy designed for small farmers effectively transfers more wealth to large ones

- India's massive urea subsidy distorts the relative prices of potash and phosphate, suppressing their application and worsening soil degradation

### PDS LEAKAGES

Despite technology upgrades (e-POS machines, Aadhaar seeding), the Public Distribution System (PDS) still loses approximately **10–15% of allocations** to diversion, spoilage, and ghost beneficiaries. This is better than the 40% leakage rate that was documented in the 2011 NAC report — but Rs 20,000–30,000 crore in annual losses from the food subsidy alone remain unacceptable.

### ENVIRONMENTAL COSTS

Subsidised fertilizers encourage intensive cultivation on marginal lands; subsidised power (often free for agriculture in states like Punjab, Telangana, Tamil Nadu) enables excessive groundwater extraction. The cumulative effect: aquifer depletion in Punjab (water table falling 0.5–1 metre per year in some districts), soil health degradation, and paddy-wheat monoculture locking farmers into high-water crops in water-scarce regions.

## THE REFORM TOOLKIT

### 1. DIRECT BENEFIT TRANSFER (DBT) FOR FERTILIZERS

The most frequently proposed reform is extending **DBT to fertilizers** — as was successfully done for LPG (PAHAL scheme: 15 crore LPG consumers migrated to DBT; leakage eliminated). Under fertilizer DBT:

- Fertilizer is sold at market price

- Eligible farmers receive subsidy directly in bank accounts

- Large farmers and non-farm users are excluded from benefit

The challenge: Fertilizer DBT requires every farmer to have a Kisan Aadhaar linkage (partially achieved through PM-Kisan), and the transition period (when market prices jump before DBT payments arrive) is politically combustible. Several states have resisted pilot testing.

**What India has done:** The DBT-for-fertilizer rollout has been partial — **nano-urea** (liquid concentrate replacing bag urea) is being pushed through IFFCO; this reduces the total subsidy per unit area while maintaining efficacy if applied correctly. Nano-urea at Rs 240/500 ml bottle vs Rs 266/bag conventional urea.

## 2. PM-PRANAM: STATE-LEVEL INCENTIVES

**PM-PRANAM** (PM Programme for Restoration, Awareness, Nourishment and Amelioration of Mother Earth) — launched 2023 — provides **50% of the savings in subsidy expenditure** as grants to states that successfully reduce fertilizer use through promotion of alternative fertilizers. This creates a fiscal incentive for state governments to push biofertilizers, organic certification, and precision agriculture.

Early results are modest — adoption of biofertilizers remains low at scale — but the incentive structure is sound.

## 3. TARGETED FOOD SUBSIDY (MEANS-TESTING)

PMGKAY's universal coverage (55% of population) is politically popular but fiscally unsustainable at scale. The economic survey has periodically suggested reducing coverage from 55% to 40% of population — targeting the bottom two quintiles rather than the bottom three.

The political economy challenge: excluding the third quintile (economically vulnerable but not “poor” by BPL definitions) generates intense rural opposition. The National Food Security Act, 2013, provides a statutory entitlement — changing coverage requires parliamentary amendment.

## 4. NUTRIENT-BASED SUBSIDY (NBS) EXPANSION TO UREA

India applies NBS (subsidies calibrated to nutrient content rather than commodity) to phosphate and potash fertilizers but not to urea. Extending NBS to urea would:

- Allow manufacturers to market diverse N formulations (not just 46% N urea)

- Incentivise slow-release nitrogen products (which reduce over-application)

- Create price signals for balanced fertilization

This reform has been discussed for over a decade but resisted because urea under NBS would cost more — with immediate political fallout.

## WHAT FISCAL CONSOLIDATION REQUIRES — AND WHAT IT CANNOT TOUCH

India's fiscal deficit target under the revised FRBM framework is 4.5% of GDP by FY 2025–26 and 4% by FY 2026–27. Meeting these targets while maintaining current subsidy levels requires that other expenditures (capital expenditure on infrastructure, defence, health) bear the compression — which is precisely the wrong trade-off for a country trying to build out manufacturing capacity and public health infrastructure.

The fiscal space created by even a 15–20% efficiency improvement in the combined subsidy bill (Rs 55,000–75,000 crore annually) could fund India's entire National Health Mission or PMGSY (rural roads) programme. The case for reform is therefore not ideological austerity — it is about redirecting the same money to more productive uses.

But what reform cannot do — without serious social consequences — is reduce the food subsidy coverage during a period when rural real wages remain stagnant, inflation has disproportionately hit food prices, and the promised farm income doubling has not materialised. Reform that treats agricultural subsidies as a purely fiscal problem, divorced from their function as a social safety net, will fail — as the 2021 farm law repeal demonstrated.

### UPSC RELEVANCE

PM Garib Kalyan Anna Yojana (PMGKAY; 813 million beneficiaries; 5 kg free grains; National Food Security Act 2013); Fertilizer subsidy (Rs 1.67 lakh crore; DAP; NBS; PM-PRANAM); PAHAL scheme (LPG DBT; 15 crore consumers); Nano-urea (IFFCO; Rs 240/500ml; reduces subsidy per ha); PM-PRANAM (2023; 50% subsidy savings → states); Ideal N:P:K ratio (4:2:1)

### MAINS GS-3:

“Critically evaluate India's agricultural subsidy architecture — what are the design flaws, leakage mechanisms, and environmental costs? Suggest a reform pathway that maintains food security while improving fiscal efficiency.” | “Discuss the potential and challenges of extending Direct Benefit Transfer (DBT) to fertilizer subsidies in India.”

### MAINS GS-2:

“The National Food Security Act, 2013 provides statutory entitlement to subsidised food grains for 67% of India's population. Critically examine whether this statutory coverage is fiscally sustainable and whether the design serves the most vulnerable.”

### INTERVIEW:

“Is India's public distribution system a safety net or a poverty trap? How would you design agricultural support policy to address both food security and productivity?”

## ★ FACTS CORNER — KNOWLEDGE PEDIA

### AGRICULTURAL SUBSIDIES (FY 2025-26):

Combined food + fertilizer: Rs 3.71 lakh crore (8.5% of total central budget)

Food subsidy: Rs 2.03 lakh crore | Beneficiaries: 813 million (PM Garib Kalyan Anna Yojana)

Fertilizer subsidy: Rs 1.67 lakh crore

MSP payouts (cumulative): Rs 3.33 lakh crore by June 2025 (3x growth over decade)

### PM GARIB KALYAN ANNA YOJANA (PMGKAY):

Launched: 2020 (COVID relief); made permanent from 2023

Coverage: ~55% of population (Bottom 3 quintiles)

Entitlement: 5 kg free grains/month per person

Legal basis: National Food Security Act, 2013

### FERTILIZER POLICY:

India imports: 90% potash, 60% phosphate (both under NBS)

Urea: India produces domestically but subsidises heavily (not under NBS)

Urea diversion: 20-25% to non-agricultural uses (plywood adhesives, industrial chemicals)

DAP special package: Rs 3,500/tonne to hold retail price

Ideal N:P:K ratio: 4:2:1 (actual Indian soil application is heavily N-skewed)

Nano-urea (IFFCO): Rs 240/500ml bottle; replaces 1 bag of conventional urea; reduces total subsidy per hectare

### DBT IN AGRICULTURE:

PAHAL (LPG DBT): 15 crore consumers migrated; leakage eliminated

PM-Kisan: Direct Rs 6,000/year to 11 crore farmers (via Aadhaar-linked bank accounts)

Fertilizer DBT: Not yet fully rolled out; pilot stages only

### PM-PRANAM (2023):

Full name: PM Programme for Restoration, Awareness, Nourishment and Amelioration of Mother Earth

Mechanism: States receive 50% of subsidy savings as grants for alternative fertilizer promotion

Goal: Reduce chemical fertilizer use; promote bio/nano/organic alternatives

### NBS (NUTRIENT-BASED SUBSIDY):

Applies to: P and K fertilizers; not yet to urea (nitrogen)

Principle: Subsidy per unit nutrient (N, P, K) rather than per bag of a specific commodity

Benefit: Encourages diverse formulations; corrects N over-application incentive

### OTHER RELEVANT FACTS:

FRBM: Fiscal Responsibility and Budget Management Act (2003); India's fiscal deficit target: 4.5% GDP (FY26), 4% GDP (FY27)

Farm law repeal (2021): Three agricultural reform laws (APMC bypass, contract farming, essential commodities) withdrawn after farmer protests — demonstrates political risk of reform

Punjab groundwater: Water table falling 0.5-1 metre/year in some districts; direct consequence of subsidised electricity enabling MSP paddy cultivation

Bengal famine (1943): ~2-3 million deaths; shaped India's food security policy DNA; drives political caution on subsidy reform

Sources: The Indian Express, PIB, Insights on India

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