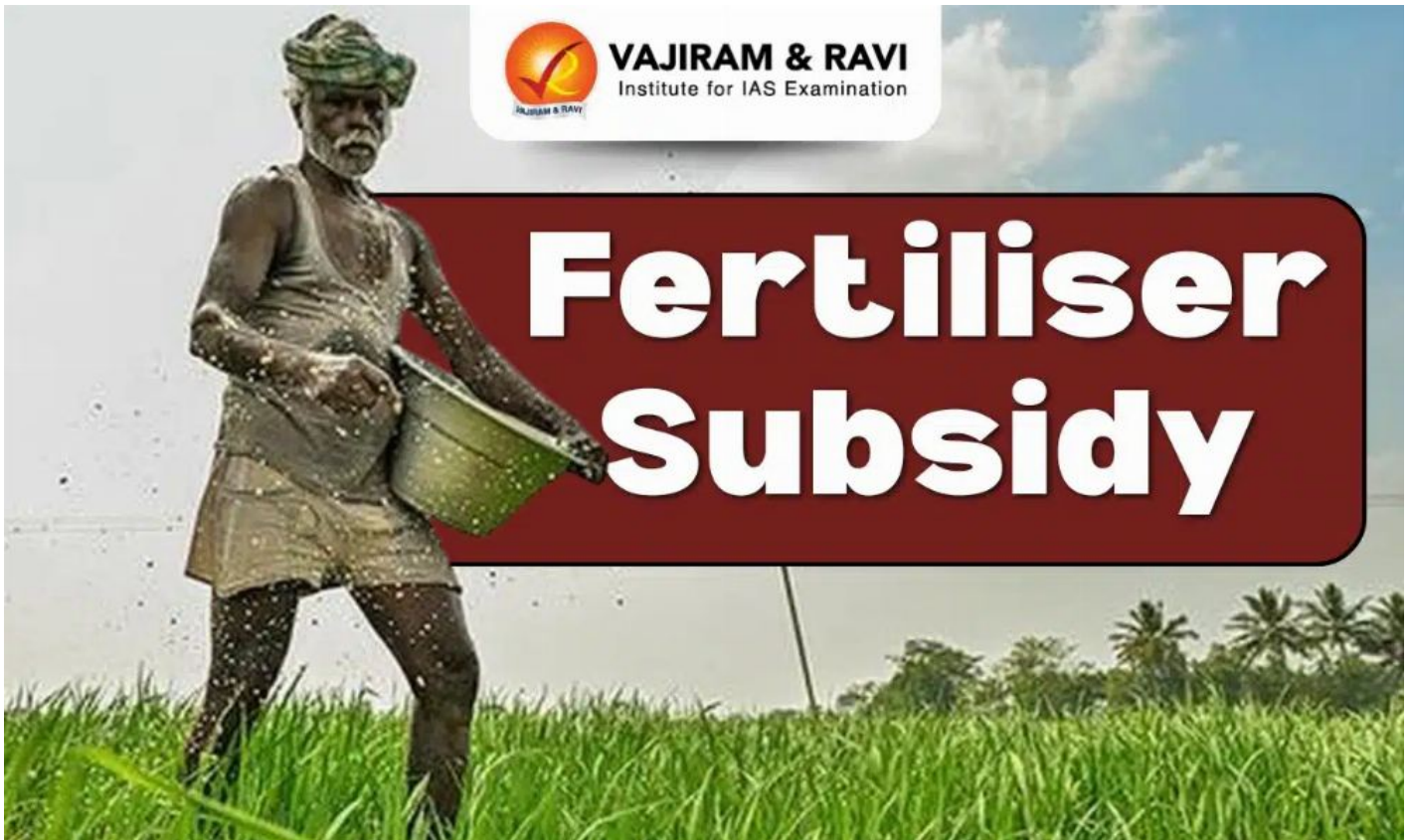


Fertiliser Subsidy Burden Set to Double Amid Global Supply Crunch

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Fertiliser Subsidy Latest News

- India's fertiliser subsidy burden is likely to double to nearly Rs. 3.4 lakh crore in 2026-27 due to surging global prices caused by the West Asia conflict and the closure of the Strait of Hormuz.

About Fertilisers and India's Dependence

- Fertilisers are essential agricultural inputs that supply nutrients, primarily nitrogen (N), phosphorus (P), and potassium (K), to crops, supporting higher yields and food security. India's agriculture is heavily dependent on fertilisers, particularly:
 - **Urea**: The most widely used nitrogen-based fertiliser, primarily used for crops like rice, wheat, and sugarcane.
 - **Di-Ammonium Phosphate (DAP)**: A phosphate-based fertiliser.
 - **Muriate of Potash (MOP)**: A potassium-based fertiliser.
 - **Nitrogen-Phosphorus-Potassium (NPK) Complex Fertilisers**: Multi-nutrient fertilisers.

- India is one of the largest importers of fertilisers in the world. Major exporters include China, Russia, Morocco and Gulf nations (Oman, Qatar, Saudi Arabia, UAE, Bahrain)
- Before the West Asia war, the Gulf nations accounted for around 40% of India's urea imports.

Fertiliser Subsidy Regime in India

- The Indian government heavily subsidises fertilisers to make them affordable for farmers and maintain food security. The subsidy system operates under two main frameworks:
 - **Urea Subsidy**
 - Urea is sold at a fixed Maximum Retail Price (MRP) of around Rs. 268 per 45-kg bag.
 - The difference between the production/import cost and the MRP is borne by the government as a subsidy.
 - **Nutrient-Based Subsidy (NBS) Scheme**
 - Launched in April 2010 for non-urea fertilisers (DAP, MOP, complex fertilisers).
 - The government provides a fixed subsidy per kg of nutrient content (N, P, K, and Sulphur).
 - Manufacturers can fix the MRP based on market conditions.
 - **Direct Benefit Transfer (DBT)**
 - Since 2018, fertiliser subsidy has been routed through the DBT mechanism.
 - Sales are recorded through PoS (Point of Sale) machines at retail outlets.
 - Subsidy is released to companies based on actual sales to farmers.

News Summary

- According to top government sources, India's fertiliser subsidy burden is likely to reach Rs. 3.4 lakh crore in 2026-27, an almost 100% increase compared to the Budget estimate of Rs. 1.7 lakh crore.
- The cost of a fertiliser sack has surged from around Rs. 2,900 post-COVID to around Rs. 4,500 now, while the government continues to sell it at a subsidised price of around Rs. 300 per sack.

Causes of the Surge

- **Global Supply Crunch**
 - The West Asia conflict and the closure of the Strait of Hormuz, a critical waterway, have caused massive disruptions:
 - India's latest urea purchases were at a cost-plus-freight price of \$935-\$959 per tonne.
 - This is more than double the year-ago figure of \$410-\$420 per tonne.
 - Global suppliers, including China, are holding on to their stock due to the Iran war.
- **China's Export Ban**
 - In mid-March 2026, China banned the export of fertilisers to secure domestic supplies, removing a critical source of supply for India.

Shift to Russia and Alternative Sources

- Given the supply crunch, the government is exploring alternative sources:

- India's urea imports from Russia rose to 13.99 LMT from 9.23 LMT.
- Imports from China surged to 21.24 LMT in the first 11 months of 2025-26 from just 0.99 LMT in all of 2024-25 (before the ban).
- The government is now planning to tap Russia to meet more of its import requirements.

Fiscal Implications

• Subsidy Spending Trends

- 2024-25: Rs. 1.73 lakh crore on fertiliser subsidy.
- 2025-26 (Revised Estimate): Raised to Rs. 1.86 lakh crore from initial Rs. 1.68 lakh crore.
- 2025-26 (Actual): Rs. 2.11 lakh crore, Rs. 24,920 crore more than the revised estimate, 22% higher than 2024-25.
- 2026-27 (Budget Estimate): Rs. 1.71 lakh crore, likely to balloon to Rs. 3.4 lakh crore.

• April 2026 Expenditure

- The Controller General of Accounts data shows the Centre spent Rs. 22,033 crore as subsidy in April 2026 for urea and nutrient-based fertilisers, roughly 13% of the full-year estimate in just one month.

• Pressure on Fiscal Deficit

- The fiscal pressure from the fertiliser subsidy is compounded by:
 - Rs. 1.23 lakh crore lost in revenue foregone due to the Rs. 10 per litre excise duty cut on fuel.
 - Under-recoveries of public sector oil marketing companies (OMCs), earlier Rs. 1,000 crore a day, now around Rs. 650 crore.
- April 2026 fiscal deficit surged to a 26-month high of Rs. 3.62 lakh crore, accounting for 21.4% of the entire 2026-27 target.

• The “3 Fs” Challenge

- Finance Minister Nirmala Sitharaman highlighted the “3 Fs” that require focus amid rupee pressure:
 - Fertiliser: heavily imported, surging prices.
 - Fuel: crude oil dependence, elevated global prices.
 - Foreign exchange to buy gold: a significant import bill.
- All three items must be paid for in foreign currency, putting pressure on the rupee.

Concerns Over Diversion

• Current Stock Position

- Despite the price pressures, the government has stated that the overall stock position is “comfortable” for the kharif season:
- Kharif fertiliser requirement (2026): 383.9 LMT
- Current stocks: 197.56 LMT (51% of requirement)
- Usual stock level: About 33%, so current stocks are significantly higher
- Farmer purchases so far: 86.65 LMT (just under 23% of total requirement)

• Government Response

- The government has instructed states to:
 - Provide fertiliser based on the actual requirement plus a reasonable buffer.

- Strengthen monitoring at retail outlets.
- Use PoS data to track unusual purchase patterns.

Significance and Implications

• For Farmers

- Continued subsidised access to fertilisers despite the global price surge.
- Risk of supply disruptions if imports are not secured.
- Need for soil health awareness and balanced fertiliser use.

• For Government Finances

- Massive fiscal burden affecting other priorities.
- Pressure on fiscal deficit targets.
- Trade-offs with other welfare and capital expenditure.

• For India's External Sector

- A higher import bill puts pressure on the current account deficit.
- Foreign exchange outflows are affecting the rupee.
- Need to diversify import sources.

• For Agricultural Policy

- Long-term concerns about fertiliser subsidy sustainability.
- Need for promoting organic and natural farming.
- Importance of soil health management.
- Push for nano fertilisers and precision agriculture.

Source: **IE** | **TH**

Source: <https://vajiramandravi.com/current-affairs/fertiliser-subsidy-burden/>

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