

Fert subsidy swells as govt races to cool retail prices

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India's fertilizer subsidy bill touched ₹2.17 trillion in fiscal year 2026 (FY26), exceeding budget estimates and underscoring volatile global input prices and currency pressures, according to two government officials aware of the development.

Additionally, the fertilizer subsidy bill of ₹1.7 trillion budgeted for FY27 is expected to go up by a fifth as the blockade of the Strait of Hormuz chokes West Asian supplies and drives up global nutrient prices, the officials said.

"The subsidy outlay remains elevated at ₹2.17 trillion due to sustained government efforts to keep retail prices of key nutrients, particularly urea, stable for farmers in the backdrop of the West Asia war," one government official said, requesting anonymity.

India, the second-largest



The FY27 fertilizer subsidy bill may go up by a fifth. **MINT**

global consumer of fertilizers, revised the subsidy allocation for the crop nutrient in FY26 to ₹1.86 trillion in the Union budget presented in February from ₹1.67 trillion estimated earlier. Fertilizer subsidy remains one of the largest components of the Centre's support to the agriculture sector, cushioning farmers from price shocks but exerting sustained pressure on public finances.

India is the world's largest

importer of diammonium phosphate (DAP) and urea. The bulk of the subsidy bill is directed towards urea, which is heavily price-controlled, while support for non-urea fertilizers is provided under the nutrient-based subsidy regime.

India imports 60% of its DAP needs and 15% of its urea and NPK (nitrogen, phosphorus, potassium) fertilizer demand. This assumes significance for India's food security, with agriculture and allied activities contributing 15.6% of national income and accounting for 46.1% of the country's workforce.

Higher fertilizer subsidy increases government spending, which widens the fiscal deficit if revenue doesn't keep pace. This leads to higher borrowing and pressure on fiscal discipline. While it helps farmers and may contain food inflation in the short term, it cre-

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ates a long-term fiscal burden and limits funds for other priorities like infrastructure.

The fiscal deficit in the FY27 budget is estimated at 4.3% of GDP compared with 4.4% of GDP in FY26.

“With fertilizer subsidies rising, the government’s fiscal deficit is likely to widen, necessitating higher borrowing,” said Neeraj Hatekar, a retired economics professor at Mumbai University. “If fertilizer prices continue to climb in the international market, a point may be reached where sustaining such subsidies becomes difficult, leaving the government with little option but to pass on the burden to farmers—potentially fuelling food inflation.”

As of 30 April, India secured 3.8 million tonnes of fertilizer imports since 28 February, when the war started. The government, through the department of fertilizers and chemicals, has tied up critical shipments to ensure continuity of supplies of all grades of subsidized fertilizers.

Analysts said the West Asia war is the primary reason behind the increase in the country’s fertilizer subsidy. West Asia—including Saudi Arabia, the United Arab Emirates (UAE) and Qatar—together accounted for almost 50% of India’s DAP imports and about a third of urea



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imports in FY25.

Pushan Sharma, director of Crisil Intelligence, said the increase in subsidy is primarily due to a sharp escalation in global input and fertilizer prices, combined with rising import dependence and fixed domestic pricing.

“Import volumes surged significantly, with urea imports reaching around 10 million tonnes (up 83% y-o-y) at \$442 per tonne (up about 20%), while DAP imports rose to about 6 million tonnes (up about 36%) at \$732 per tonne (up about 22%), directly increasing the subsidy burden as the government absorbs the difference between rising landed costs and controlled retail prices,” Sharma said. “At the same time, strong agricultural demand and structural issues such as overuse of urea

and imbalanced nutrient use further amplified consumption. Together, these factors led to a structurally higher subsidy bill.”

Geopolitical disruptions, particularly in West Asia, drove up prices of key inputs including natural gas and sulphur, increased freight and insurance costs, and constrained supply chains towards the end of FY26. India also imports key raw materials and intermediates such as rock phosphate, phosphoric acid and potash.

Prashant Vasisht, senior vice president and co-group head, corporate ratings at Icria, said the rising subsidy bill reflects increased input costs and growth in fertilizer consumption over the years. “The government has shown high sensitivity towards ensuring

adequate fertilizer availability for the farm sector, supporting it through adequate subsidy allocations. Thus, the farm sector has been insulated from the global volatility in the fertilizer markets,” said Vasisht.

India’s production of urea, DAP and NPK was 30.66 million tonnes (mt), 3.76 mt and 12.10 mt, respectively, in FY26.

Queries emailed to the spokesperson for the department of fertilizers and chemicals on 3 May remained unanswered till press time.

Icria’s Vasisht expects the fertilizer subsidy to remain in the range of ₹2.05 trillion to ₹2.25 trillion in FY27, with an upward bias if the West Asia crisis continues for the next couple of months.

Crisil’s Pushan said the fertilizer subsidy in FY27 is projected to surpass ₹2.2 trillion, more than 25% above the budget estimate.

“Urea import prices have sharply increased to around \$935-959 per tonne—more than twice FY26’s average—while sulphur prices have risen by approximately 50% YoY to about \$630 per tonne, significantly elevating the cost of complex fertilizers like DAP,” said Pushan.

Pushan said India faces additional pressure from a roughly 25% decline in domestic production in March due to gas shortages and increased dependence on expensive spot imports.