Fact Sheet

India's massive fertiliser subsidy needs an immediate overhaul

Urea subsidy outgo exceeds INR1 trillion

India's fertiliser subsidy is one of the largest recurring expenditures, driven primarily by regulated urea prices and volatility in global input prices. While the subsidy ensures affordable fertilisers for farmers, it imposes a growing fiscal burden and limits budgetary space for long-term agricultural investments. Urea subsidy outgo, the largest component of total fertiliser subsidy, has exceeded INR1 trillion (USD10.9 billion) for the past six years and is budgeted at INR1.17 trillion (USD12.7 billion) this year.

Chart 1 shows the annual expenditure on urea subsidies since FY2019, with subsidies for indigenous urea production increasing sharply over the last few years due to the government's push for greater self-sufficiency. Over the last six years, six new urea plants have been commissioned, with the highest domestic production having been achieved in FY2023–24, the same year in which the use of imported gas in urea production saw a massive jump.

Chart 1: Urea subsidy in India FY2019 to FY2027 (INR crore)

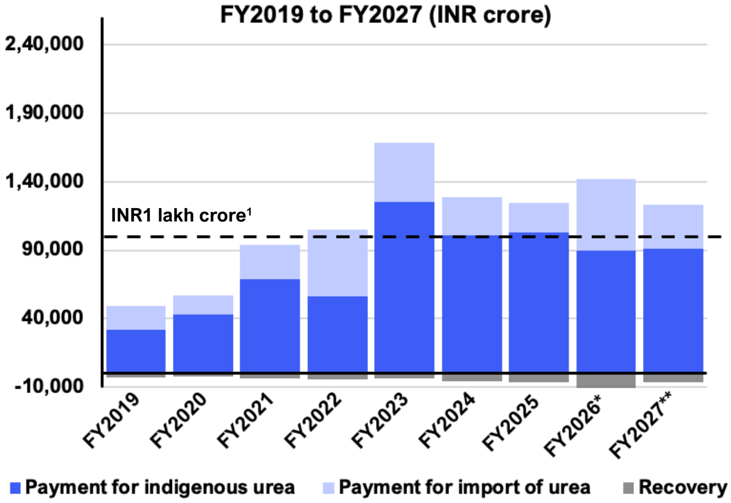
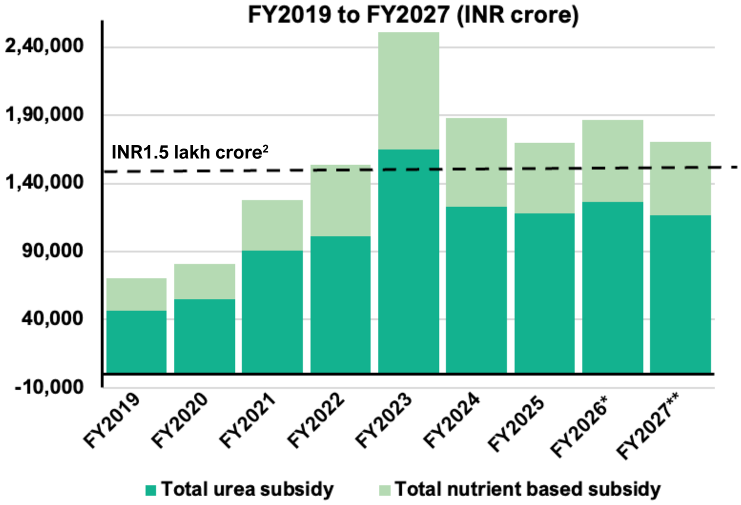


Chart 2: Total fertiliser subsidy outgo in India FY2019 to FY2027 (INR crore)



Note: Recovery refers to recovery of pool issue price of urea from handling agencies. [1,2] The 1 lakh crore and 1.5 lakh crore are the numbers that were crossed in FY2022 due to global supply disruptions but we never returned from them. USD1 = INR91, as per 11 March 2026.

Source: India budget documents over the years; *revised budget estimate, **budget estimate.

The fertiliser subsidy also includes a direct benefit transfer (DBT) component, under which 100% of the subsidy on various fertiliser grades is released to fertiliser companies, based on actual sales to beneficiaries, authenticated through Aadhaar-enabled point of sale (POS) devices installed at retail outlets. This has remained a small component of the subsidy outgo: under INR10 crore (USD1.09 million) till FY2024 (barring post-pandemic FY2022 when it was INR12 crore [USD1.3 million]). The allocation rose to INR19 crore (USD2.07 million) in FY2025 and to INR32 crore (USD3.48 million) in FY2026. Despite this trend, no budgetary allocation has been made for this component in FY2026.

The overdependence on urea has deteriorated soil heath. According to the Economic Survey 2026, the nitrogen : phosphorus : potassium (N : P : K) ratio stood at 4 : 3.2 : 1 in FY2010 — close to recommended levels for most Indian soils — but deteriorated to 7 : 2.8 : 1 in FY2020 and further worsened to 10.9 : 4.1 : 1.68 by FY2024. The survey recommends changing the subsidy structure by slightly increasing the retail price of urea while transferring an equivalent amount directly to farmers on a per-acre basis. This will help maintain farmers' overall purchasing power, while allowing the relative price of nitrogen to move closer to its agronomic cost.

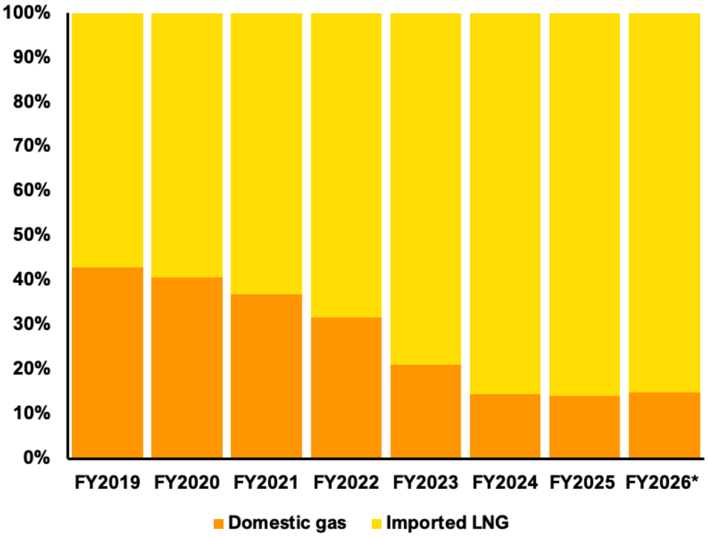
To reduce dependence on urea, a nutrient-based subsidy for phosphatic and potassic (P&K) fertilisers has been in place for over a decade. This has resulted in the total subsidy outgo being upwards of INR1.5 trillion (USD16.3 billion) annually for the past five years. Chart 2 shows the country's total fertiliser outgo from FY2019 onwards, and stands at INR1.7 trillion (USD18.5 billion) for FY2027.

Urea self-sufficiency or hidden dependence on imported gas?

The bid to increase domestic urea production has resulted in an increased use of natural gas by the fertiliser sector. As affordable domestic gas has limited availability, it is first provided to sectors like city gas distribution and industries, which pass on the higher input cost to consumers. However, because urea prices are heavily subsidised with a fixed market rate, the allocation of affordable domestic gas has been replaced by imported natural gas or liquefied natural gas (LNG) for urea production. LNG now accounts for around 86% of the gas used in domestic urea production.

Chart 3 shows the increase in natural gas use in the fertiliser sector in India over the past few years and how it is being primarily met by LNG.

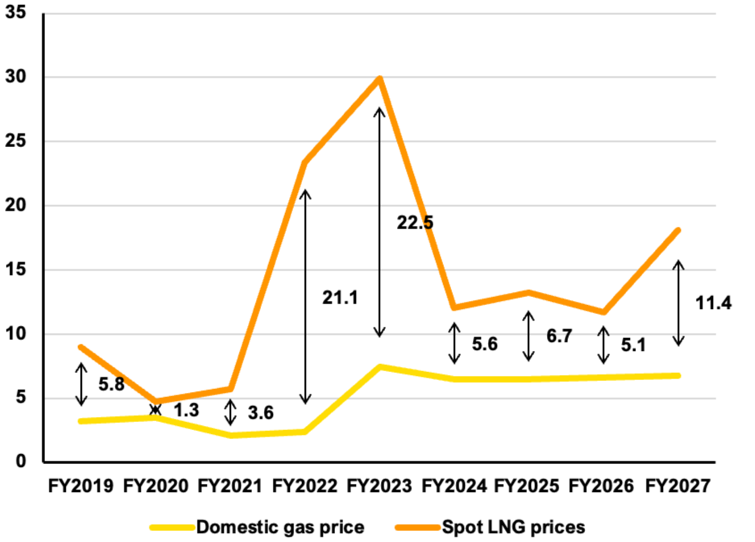
Chart 3: Domestic and imported natural gas use by fertiliser sector



Note: *Till January 2026

Source: Natural Gas Production, Availability and Consumption reports, Petroleum Planning and Analysis Cell (PPAC).

Chart 4: Domestic gas and spot LNG prices (US$/MMBtu); difference in prices



Note: Domestic price for FY2026 had a ceiling of USD6.75 (INR621), but was lower in few months; price ceiling of USD6.75 (INR620.8) assumed for FY2027.

Source: IEEFA Analysis of PPAC, Investing.com and CME data (accessed on 11 March 2026).

The cost of importing urea has been replaced with imported natural gas, which is not only expensive but also a volatile commodity, increasing the risk of even higher subsidy outgoes. Chart 4 shows the difference in domestic gas prices and spot LNG prices over the years as an indicative price differential and the cost of using imported gas over domestic gas for urea production. The recent potential supply disruptions and resultant price increase show the massive difference between the domestic and international gas prices assuming the domestic price ceiling would be maintained. The difference between the notified domestic price and ceiling price has been less than a dollar in the last fiscal but could increase with the changing global crude oil price dynamics as the domestic gas prices are linked to the Indian crude basket now.

Moreover, this high dependence on LNG adds fiscal pressure by increasing import bills and adding to the current account deficit.

High subsidy burden needs recalibration

The Economic Survey has rightly pointed out the need to reorient fertiliser use towards improving soil health and crop productivity. Doing so will help reduce the fertiliser subsidy burden while more judicious fertiliser use would enhance crop productivity and soil health. There is an urgent need to recalibrate the subsidy outgo not only to address economic concerns but also to improve health, agriculture efficiency and long-term environmental outcomes.

Solutions to high fertiliser subsidy burden

- **Strict policy measures for ensuring judicious use of fertilisers, especially urea**
- **Incentivise use of biogas slurry and other organic fertilisers**
- **Digitisation of benefits and linking of soil health cards**
- **Explore indigenous production of rock phosphate used for phosphatic fertiliser**
- **Budgetary support for green ammonia production**
- **Reallocate affordable domestic gas to fertiliser sector**

Author contact: Purva Jain (pjain@ieefa.org) | Media contact: Prionka Jha (pjha@ieefa.org)

Institute for Energy Economics and Financial Analysis