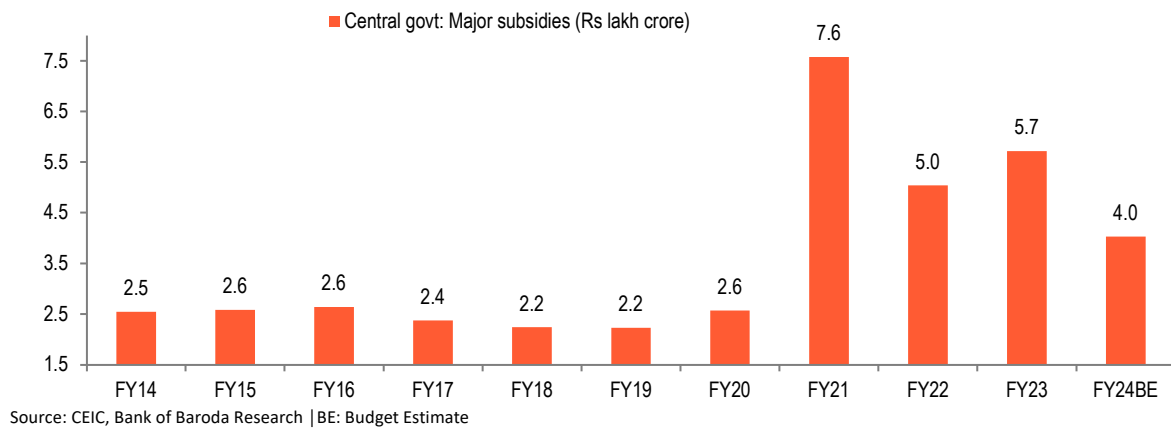


Trends in general government subsidies

In this note we have briefly analysed the trends seen in general government (centre and states) subsidies. Latest data for central government shows that subsidy levels (% of GDP) hover above pre-pandemic levels even until FY23. Major changes in pattern are visible over the past 10 years with food and fertilizer subsidies gaining more importance and petroleum subsidies being phased out. Within fertilizers too, shift towards nutrient based subsidies is visible. With PMGKAY scheme extended for another 5 years, we expect food subsidy bill and overall subsidy bill to breach projected target marginally in FY24. In case of states, the burden has remained range bound (between Rs 2-3 lakh crore) over the past 5 years. Lately, the subsidy bill has remained towards upper end of the bracket. Study of state budgets indicate that in FY24 as well, subsidy bill for major states and UTs collectively can range between Rs 2.6-3.1 lakh crore. Further, state-wise analysis shows that Punjab, Karnataka, Gujarat and Tamil Nadu are some of the states with higher subsidy per capita.

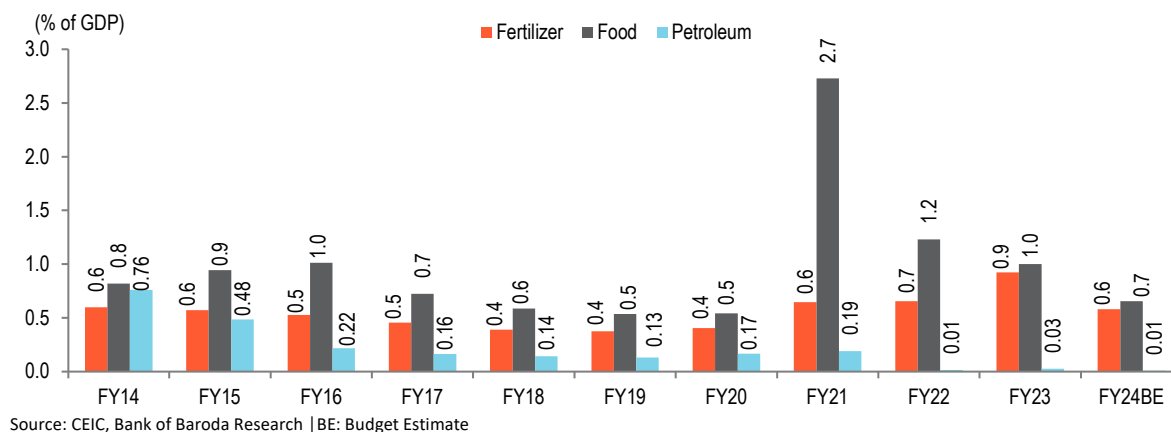
Centre's subsidy burden: Over the past 10 years, between FY14 and FY23, centre's overall subsidy bill has more than doubled from Rs 2.5 lakh crore (FY14) to estimated Rs 5.7 lakh crore in FY23. A part of this increase can be attributed to Covid-19 pandemic, when centre substantially increased its support for those in need. Between FY14 to FY16, subsidies were broadly stable around Rs 2.5-2.6 lakh crore, registering an average 0.9% growth. Beginning FY17, centre had started pruning its subsidy bill and had brought it down to Rs 2.2 lakh crore by the end of FY19, thus registering an average decline of 5.4% during the 3 year period. In FY20, as Covid-19 pandemic struck and government announced enhanced support for those affected, the bill shot up from Rs 2.6 lakh crore in FY20 to Rs 7.6 lakh crore by FY21. Subsequently steps were again taken to gradually bring down the subsidy level. However, the central government subsidy level continues to remain above pre-pandemic levels as the amount spent on subsidies is estimated to be around Rs 5.7 lakh crore in FY23, and is targeted to come down to Rs 4 lakh crore by FY24 (budget estimates). Even in terms of % of GDP, barring Covid impacted years (FY21 and FY22), subsidy-GDP ratio hovered at 1.7% since FY14. Only between FY17-20 was the ratio below average. For the last two years (FY22 and FY23) this ratio has remained at 2.1%, but is projected to come down to 1.3% by the end of FY24.

Figure 1: Central government subsidy bill



Major subsidies: In the past one decade, focus areas at which subsidies are targeted have changed. For instance, in FY14, fertilizer (26.4%), food (36.1%) and petroleum (33.5%), were three most important subsidies and accounted for 96% of the total subsidy bill. By FY23, food (47.7%) and fertilizer (44%) subsidies became the dominant ones and share of petroleum subsidy dwindled to 1.2%. One of the key reason behind this trend is deregulation of both petrol and diesel prices. With those prices now linked to market rates, Oil Marketing Companies (OMCs) are less dependent on government subsidies. Lately, another shift in pattern is seen in the “other subsidy” component. The 10-year average (% of total subsidies) for this component is ~2.5%, and out these 10 years (FY14-23), for 7 years, the ratio ran above average (FY16-22; average 3.6%). It has now seen substantial reduction with cuts made to price stabilisation fund and procurement of cotton by cotton corporation fund. This ratio was thus brought down to 0.5% as FY23RE and is targeted to be even lower at 0.2% by the end of FY24 (BE). In terms of % of GDP also, share of fertilizer subsidy has gone up from 0.6% in FY14 to 0.9% in FY23, share of food subsidy is up from 0.8% to 1%, while that of petroleum has dropped from 0.8% to 0.03%.

Figure 2: Share of major central government subsidies (% of GDP)

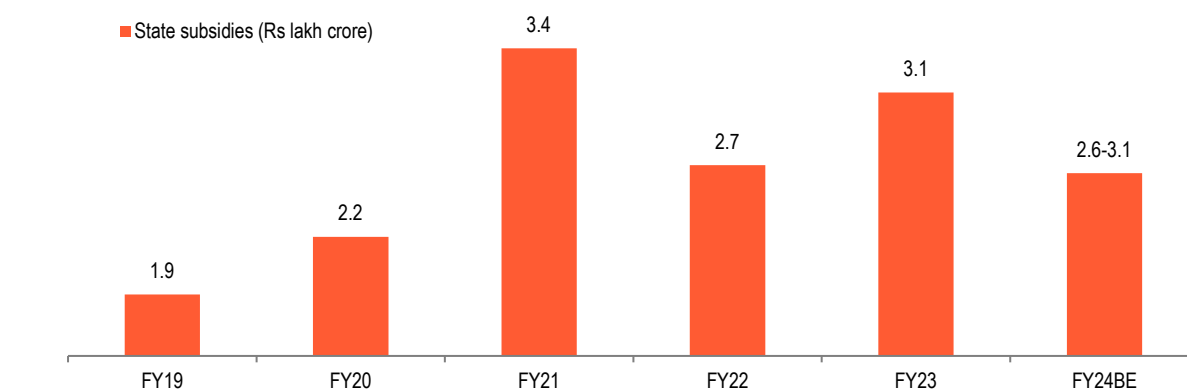


Within **fertilizer subsidy** also, a change in trend is visible over the past seven years. In FY17, total fertilizer subsidy stood at Rs 7 lakh crore, of which Rs 5 lakh crore was paid for Urea based subsidies and Rs 2 lakh crore was for Nutrient based subsidies, implying a share of 73% and 27% respectively. By FY23, while Urea subsidies still remain dominant (66% share in total fertilizer subsidies), nutrient based subsidies have seen a significant increase (34% share). During this period (FY17-23), when fertilizer subsidies rose at a CAGR of 20%, Urea subsidies rose by 18% and Nutrient based subsidies by 24%.

Food Subsidies over the 10 year period of FY14-23, have seen 11.5% CAGR growth from Rs 92,000 crore in FY14 to Rs 2.7 lakh crore by FY23. Following the implementation of the National Food Security Act (NFSA), 2013, food subsidies saw an average of 18% growth between FY14 and FY16. After that, subsidy bill saw some rationalisation and it came down by 10% on an average between FY17 and FY19. However, as Covid-19 pandemic struck, government announced PM-Garib Kalyan Ann Yojna (PMGKAY), which benefitted ~80 crore individuals and pushed food subsidy bill from Rs 1 lakh crore in FY19 to Rs 1.1 lakh crore in FY20 and Rs 5.4 lakh crore in FY21. Until the end of CY22, beneficiaries received free food grain under PMGKAY and also received subsidised ration under NFSA. To streamline the disbursements, both schemes were merged from Jan'23 onwards. As a result, subsidy bill was brought down to Rs 2.9 lakh crore by FY22 and Rs 2.7 lakh crore by FY23. In FY24, the cost is targeted at Rs 2 lakh crore. Here, there might be marginal slippage in the target as government has recently announced that free food grains scheme will be extended for another five years.

How have states fared? : We studied a sample of 28 states and UTs for which the data was available, and noted that state subsidies were up by 5.7% (CAGR) between FY19 and FY23. In absolute terms, there hasn't been a dramatic change, as it has ranged between Rs 2-3 lakh crore in non-Covid years. Only during Covid-19 pandemic subsidy bill edged up to Rs 3.4 lakh crore in FY21 from Rs 2.2 lakh crore in FY20. In the last fiscal year as well, subsidy bill settled at ~Rs 3.1 lakh crore. A major part of these subsidies goes to for power, water, agriculture and health. Out of our sample of 28 states, budgets of 21 states provide subsidy projections for FY24. This shows that subsidy bill is expected to come down to ~Rs 2.6 lakh crore. However, the 2 key states missing from this estimate are Karnataka and Punjab. Considering that these two alone accounted for ~15% of the total subsidy bill in FY23, subsidy bill by the end of FY24 could again settle at ~Rs 3 lakh crore.

Figure 3: State governments' subsidy bill



Source: CEIC, Bank of Baroda Research | BE: Budget Estimate

Out of 28 states and UTs analysed, 10 contributed towards 81% of the total subsidies in FY23, with Maharashtra (13.9%), Tamil Nadu (9.5%) and Gujarat (8.3%) leading the way. As size of the budgets of these state as big, their share in overall subsidies are also higher. Similar is the case with states like Karnataka, Rajasthan, A.P. and U.P.

Hence, in order to gauge the burden of subsidies in each state, we looked at subsidy per capita. However, these numbers should also be read with caution, as the population figures used for our calculation pertains to 2011 census and by FY23, population would have increased notably, making the denominator bigger and ratio smaller than it appears now.

As of FY23, states like Punjab, Karnataka, Gujarat, and Tamil Nadu, spent over Rs 4,000 per person on subsidy, while states like Maharashtra, Rajasthan, Haryana, Chhattisgarh spent more than Rs 3,000 per person. Amongst the bigger states, Odisha (Rs 868) and UP (Rs 1,064) had lowest levels of subsidy per capita, followed by West Bengal, Madhya Pradesh and Andhra Pradesh.

Table 1: State-wise subsidy per capita

States	FY21	FY22	FY23
Punjab	3,513	5,232	7,428
Karnataka	4,217	4,171	4,274
Gujarat	3,666	3,737	4,272
Tamil Nadu	14,832	3,006	4,097
Maharashtra	3,600	2,592	3,840
Rajasthan	2,163	3,408	3,817
Haryana	2,997	3,762	3,692
Chhattisgarh	10,232	2,570	3,250
Himachal Pradesh	1,807	1,720	2,875
NCT of Delhi	2,488	2,841	2,861
Telangana	3,435	2,919	2,751
Andhra Pradesh	585	1,736	2,718

Madhya Pradesh	1,853	2,655	2,655
Puducherry	2,258	2,373	2,176
West Bengal	1,356	1,818	1,870
Bihar	785	985	1,317
Jharkhand	973	1,714	1,239
Uttar Pradesh	584	1,009	1,064
Mizoram	2	1,612	1,003
Odisha	836	1,040	868
Kerala	1,886	1,164	462
Manipur	421	421	421
Assam	630	401	324
Tripura	397	360	304
Uttarakhand	137	144	287
Sikkim	46	41	231
Arunachal Pradesh	129	94	199
Meghalaya	128	115	149

Source: CEIC, Bank of Baroda Research

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