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Subsidies in India: Bridging the Data Gaps

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Abstract

This paper looks at reported subsidy spending in India, in light of ongoing central initiatives to build transparency and accessibility of information related to financial operations and decisions of public expenditure. Subsidies have become a prominent policy tool for public resource allocation in India. However, without a clear definition and reporting of 'subsidy', the term tends to be loosely used to encompass many schemes and programs of the Union and state governments, including the recent rise in 'freebies', which need to be clearly differentiated. Moreover, many forms of financing through special securities and extra-budgetary resources have been used to finance subsidy spending, making it difficult to comprehensively define and measure subsidy expenditure in the budget and other annual accounts. These issues relate to the existence of data gaps in India's fiscal reporting and accounts, which are a critical area of concern due to the large financial implications of subsidy expenditures. This paper identifies how subsidy spending has been accounted in India and explains the resultant data gaps that render such fiscal data inconsistent and incomparable across levels of government. The paper seeks to understand whether the present reporting of subsidy spending in the finance accounts and budget documents provide clear and comprehensive information about budget allocations, revenue sources, expenditures, and other related financial matters. It then proposes steps in the way forward to improve their transparency.

Keywords: data gaps, subsidy, transparency, fiscal reporting, Public Financial Management

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1. Introduction

Public Financial Management (PFM) deals with how governments collect, allocate, spend, and account for public resources throughout the budget cycle. It should encompass well-defined systems to produce information, processes, and rules that can help support fiscal policymaking. The Fifteenth Finance Commission (FFC) highlighted four overarching objectives of PFM that are needed to bring India in line with international standards – aggregate fiscal discipline, strategic budgeting and planning, operational efficiency, and accountability and transparency (FFC 2020). This paper focuses on the fourth objective – accountability and transparency – within the context of India's subsidy spending. Gupta and James (2023) had highlighted the data gaps pertaining to off-budget borrowings in India. Owing to their ambiguous definition and significant share in total expenditure, the measurement of subsidies merits a similar exercise.

1.1 India's Fiscal Trends

To give perspective to India's fiscal space relative to its spending needs, it is useful to review how India's fiscal trends have evolved. India's fiscal space has typically remained constrained due to high revenue expenditure, persistent fiscal deficits, lower-than-expected revenue growth, and structural rigidities in public finances. While well-identified capital expenditure is crucial for building productivity and long-term economic growth, the fiscal balance remains very tight due to the continuing need to meet significant mandatory spending and growing social welfare programs – many of which benefit the recipient alone, rather than society as a whole.

The central and state governments have faced difficulties adhering to the original Fiscal Responsibility and Budget Management (FRBM) Act and the respective state fiscal responsibility laws targets due to various economic shocks, including the global financial crisis (GFC) and the COVID-19 pandemic.

Over time, the FRBM rules have been adjusted to provide more flexibility, particularly through mechanisms like the escape clause and differentiated borrowing limits for states. The original timeline to achieve a 3% fiscal deficit target has now been extended, at least to FY26, with a gradual path of fiscal consolidation taking effect, especially at the central government level. Figures 1 and 2 show the reported central and state fiscal deficits and debt as a percentage of GDP. For both the centre and the states, their debt positions have remained well above the originally targeted 60% of gross domestic product (GDP).

The Ministry of Finance (MoF) defines central government debt as the sum of liabilities from the Consolidated Fund of India[1] and the public account, and financial obligations of government-controlled entities or Public Sector Undertakings (PSU), some of which are financed through extra-budgetary resources (EBRs). Since FY23, government-reported EBRs have been included in the Union's liabilities. Therefore, the data before FY23 understates the true extent of debt. Achieving the

original FRBM targets would require structural reforms, improved revenue collection, better prioritisation of spending, and more efficient public financial management, to build space for the capital expenditure required to meet the country's growing infrastructure and development needs.

Figure 1: Union's Deficit Indicators as % of GDP

Source: Reserve Bank of India (RBI)

States' recorded borrowings have generally been above 20% of GDP. However, if their extra-budgetary resources are also considered, their debt is even higher[2]. Commendably, MoF recently[3] identified the extent of such borrowings from states, and applied it to determine more accurately the total borrowings of states, required for administration of Article 293 (3) of India's Constitution which governs the extent of borrowing by state governments.

Since FY01, the combined total spending of the Union and states has averaged about 30% of GDP. States' share in total expenditure has gone up in recent years, with increased tax devolution by successive Finance Commissions. States' development expenditure has also consistently surpassed that of the Union (Figure 3). Broadly, development expenditure constitutes social and economic services, including agriculture, education, health, etc. Expenditure on general services like administration and defence is considered as non-development expenditure.

Figure 2: States' Average Deficit Indicators as % of GDP

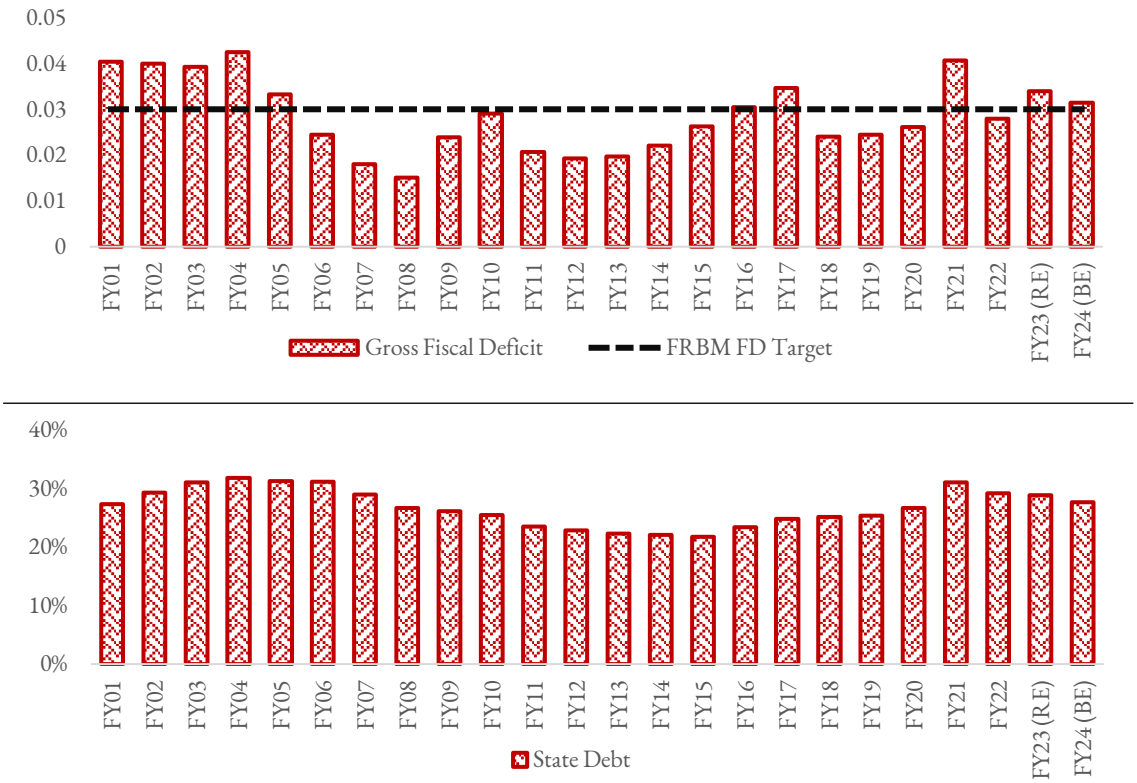
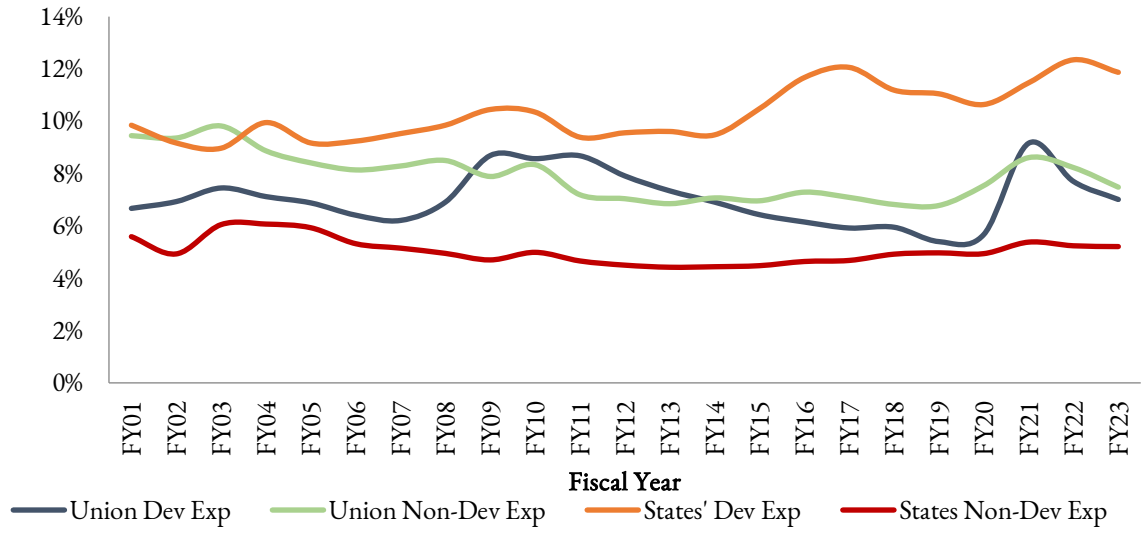


Figure 3: Union and States' Developmental and Non-developmental Expenditure (as % of GDP)



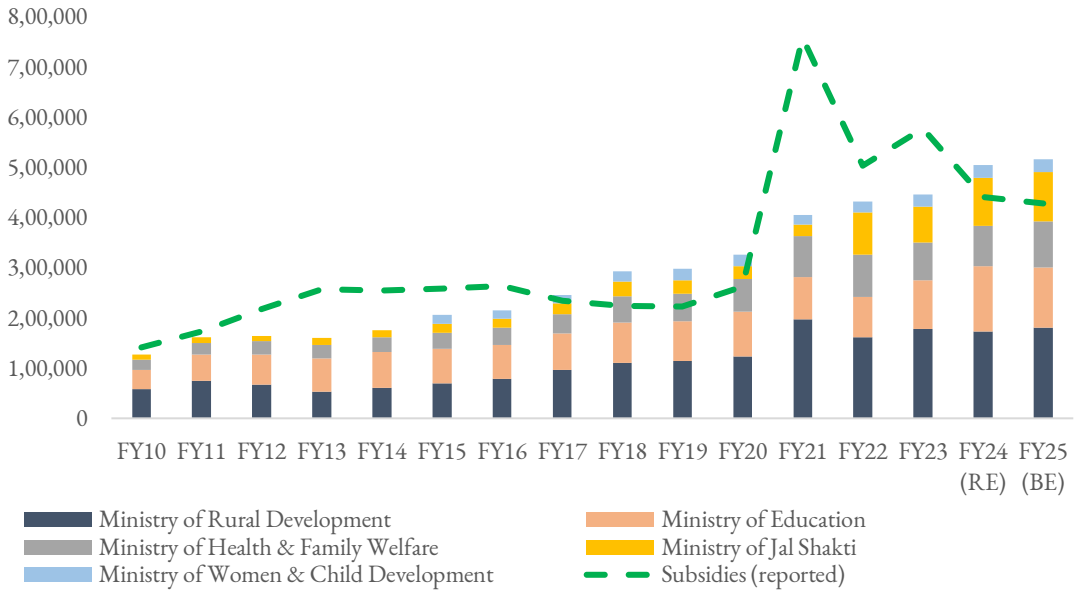
1.2 Welfare Expenditure

Within reported development expenditure, total spending on social services and subsidy spending under economic services (broadly reflecting welfare-related spending) of all states and the Union,

when combined, amounted to 9.25% of GDP. The Union government spends significantly on social welfare through ministries such as Education, Health and Family Welfare, Rural Development, Jal Shakti, and Women and Child Development. These ministries oversee some of India's most prominent and widely recognised programs, such as the National Education Mission, National Health Mission, Pradhan Mantri Awas Yojana (Rural), and Mahatma Gandhi National Rural Employment Guarantee Scheme. Notably, the total expenditure on subsidies has far surpassed the combined spending on these central schemes and the other expenditures by their respective ministries (Figure 4).

Of these, the Government of India (GoI) incurs the highest expenditure on the Ministry of Rural Development and especially, the rural-agrarian sector. Thangraj and Gulati (2024) highlight that the Union's total expenditure on this sector is budgeted at Rs. 6,20,000 crore (approximately 1.98% of the GDP) in FY25. However, well over half of this expenditure is just on subsidies– primarily, food and fertiliser.

Figure 4: Union's Expenditure on Select Social Sector Ministries v/s Actual Subsidy Expenditure (in Rs. crore)



Source: Union Budgets, Government of India (GoI)

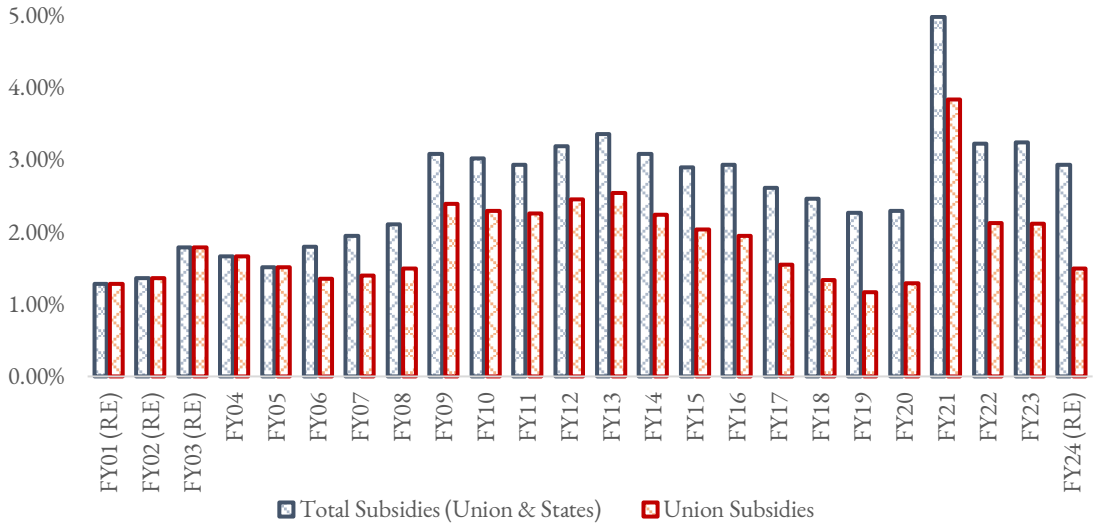
Notes: The Union's Ministry-wise expenditure includes both revenue and capital expenditure.

1.3 Subsidy Expenditure

Typically, subsidies are used as the first policy choice when the government believes a commodity or service must be provided to those who cannot afford it at the market price, or when market mechanisms do not assure socially desirable consumption. Aggregate central and state subsidies in India are reported to have been more than 3% of national GDP in FY23, of which 2% was contributed

by the Union and the remainder by all the states combined (Figure 5). Box 1 compares India's subsidy spending with other G20 countries.

Figure 5: India's Subsidies as % of National GDP



Source: Union Budgets, GoI; State Finance Accounts, Comptroller and Auditor General of India (CAG)

As global experience demonstrates, the rise in public debt, combined with the urgency of the climate agenda, is putting pressure on public finances and raising the imperative to carefully prioritise public spending. This makes it important to examine the fiscal accounting of subsidies and the quality of data in budgets and financial statements that report subsidy spending.

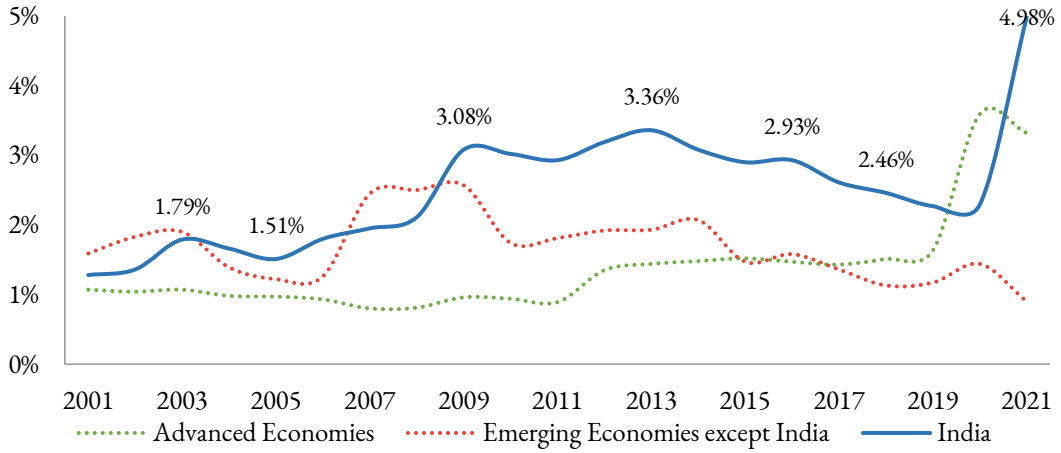
However, the many definitions of 'subsidy'[4] pose challenges for their consequent identification, classification and measurement. Most recently, the Aadhaar (Targeted Delivery of Financial and Other Subsidies, Benefits and Services) Act 2016 defined subsidy "as any form of aid, support, grant, subvention, or appropriation, in cash or kind." GoI annually publishes Statement 7 - 'Subsidies and subsidy-related expenses' in the Expenditure Profile of the Union Budget. However, the subsidies listed in this budgetary category do not fully align with the Aadhaar Act's definition. For example, PM-KISAN is a form of cash support, but is not listed as a subsidy. Because strict identification of each government scheme or programme would be complicated, we have limited ourselves in this paper to the most contemporary and widely discussed subsidy and subsidy-equivalent programmes.

Additionally, budgets and related financial statements typically reflect only a fraction of the magnitude of subsidisation that occurs in a country at a point in time (Schwartz, Hugounenq, and Clements 1995). Governments often leverage other sources of financing towards subsidisation which may appear in statements other than that of explicit subsidies. Budgets also often do not show the full fiscal impact of current subsidy programmes, as some of their expenses may have been deferred. Because these other sources of financing subsidies are not explicitly listed as subsidy payments, fiscal allocations under-report the actual expenditure on subsidies. These other means of financing subsidies are discussed in this paper and are reflected in the analysis, as far as data permits.

Box 1: India's subsidies vis-a-vis other countries

To understand where India stands globally, Figure 6 compares India's subsidy expenditure with that of the G20 over the period 2006-2021. India's subsidy spending is relatively high compared to many other emerging markets, particularly in areas like food and fertilisers, and rose close to 5% of GDP in 2021. While other emerging markets also provide subsidies, there has been a trend towards reducing them in favour of more targeted and efficient social protection programs. India has begun similar reforms.

Figure 6: Subsidies Expense, % of GDP for G20 countries, 2001-2021



Source: Government Finance Statistics (GFS), Expense, International Monetary Fund (IMF); Union Budgets, GoI; CAG; RBI

Notes:

1. Advanced economies include Australia, Canada, France, Germany, Italy, Japan, Korea, the United Kingdom, and the United States. Emerging economies comprise Argentina, Brazil, India, Indonesia, Mexico, Russia, Saudi Arabia, South Africa, and Turkiye. Due to data unavailability, China, the European Union, and the African Union are not included in the above graph.
2. As per the IMF's Government Finance Statistics (GFS), subsidies are defined as "current unrequited transfers that government units make to enterprises on the basis of the level of their production activities or the quantities or values of the goods or services they produce, sell, export, or import" (IMF 2014, 131).
3. As per the IMF, the general government includes the central, state, and local governments and social security funds for international comparability.

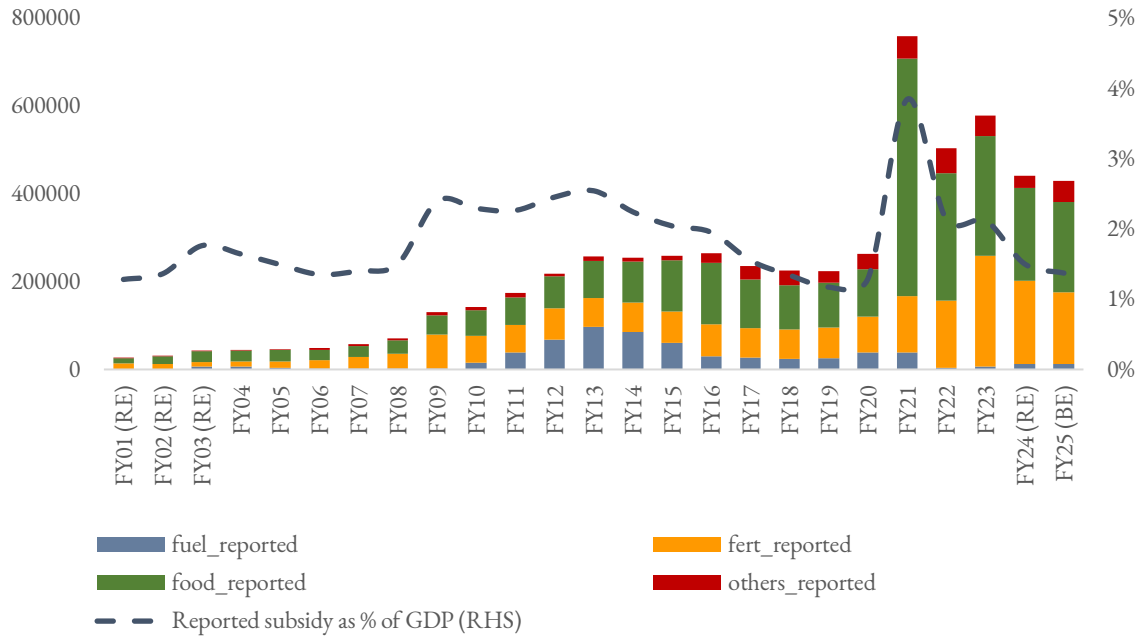
This paper thus attempts to understand the fiscal quantum of India's subsidy programmes, and the quality of data available in this regard. Sections II and III elaborate on subsidy spending by the Union and state governments – their reported numbers, the data gaps, our methodology to arrive at the actual numbers, and our assessment of actual subsidy spending. We also look into the most subsidised commodities in India, and the data discrepancies we found. The final section summarises the data gaps discovered during this research, and presents a way forward towards the use of good quality fiscal expenditure data in decision-making.

2. Union Subsidy Expenditure

The Central government has historically subsidised the economic sector (mainly, agriculture, energy and industry) through a myriad of subsidies borne by the Consolidated Fund of India. It lists food, fuel, fertiliser, interest and all other subsidies it provides in Statement 7 of the Union budget, hereafter referred to as the 'reported subsidy' of the Union.

Looking back to the evolution of subsidies in India, in its first full-year budget for FY1949, the Union government set aside Rs. 136 crore for total expenditure and, of this, about 14% was allocated to food subsidies (Department of Economic Affairs (DEA), n.d.). Fertiliser subsidies were introduced in 1977, and fuel or petroleum subsidies were explicitly listed in the budget only from FY03 onwards.

Figure 7: Composition of Union's Reported Subsidy Expenditure (in Rs. crore)



Source: Union Budgets, GoI

The Union's reported subsidy expenditure has increased manifold over the past 25 years, as seen in Figure 7. Its trend is summarised below:

- Between FY01-FY08, the Union's reported fiscal spending on subsidies was well below 2% of GDP. The GFC, and the oil price shock that preceded it, significantly raised GoI's subsidy bill in FY09. The consequent price deregulation of diesel, the introduction of direct benefit transfer to liquified petroleum gas (LPG) consumers, and the sharp decrease in crude oil prices in FY15 led to a dip in fuel subsidy (Department of Economic Affairs (DEA) 2015). As a percentage of GDP, Union subsidy spending, as reported, decreased from 2% in FY15 to a little over 1% in FY20.

- Subsequently, reported subsidy expenditure as a percentage of GDP jumped in FY21. This mainly resulted from the takeover of National Small Savings Fund (NSSF) loan obligations[5] of the Food Corporation of India (FCI) for financing food subsidy by the Union. Before FY21, NSSF loans were a form of off-budget borrowing by the FCI, were not consolidated with the reported subsidy data and, hence, did not accurately reflect GoI's full expenditure on food subsidy and its impact on the fiscal deficit.
- The COVID-19 pandemic prompted GoI to increase subsidies to ease cost of living pressures on citizens between 2019-2022. Most notably, the Pradhan Mantri Garib Kalyan Anna Yojana (PMGKAY) provided (free) extra food grain to beneficiaries, which led to the doubling of the quantum of food grains subsidised (Department of Food and Public Distribution (DFPD), n.d.). While these were subsequently brought down in FY22, more recently, GOI has extended the provision of free food under the PMGKAY for an additional five years.
- The geopolitical conflicts between Russia and Ukraine, and the supply disruptions and global macroeconomic uncertainties which followed, resulted in a further increase in subsidy spending to limit the pass-through of higher import prices.
- Subsidies are expected to reduce by about 24% in FY24, from the previous year, driven by the stabilisation of key commodity prices (IMF 2023). GoI is also optimistic that global fertiliser nutrient prices will remain stable in FY25, and food and fuel subsidies will not see any new scheme-based spending (Mukherjee 2024). In this case, the composition of subsidy spending should remain almost the same as in FY24.

The Union also administers credit support and interest subsidy schemes, freight subsidies, and sugar production subsidies, among others. Spending on interest subsidies is budgeted to be as much as Rs. 30,000 crore in FY25. Much of such subsidies have been directed at the agriculture sector, especially the Modified Interest Subvention Scheme, which provides short-term credit to farmers. These are cumulatively reflected as 'Other Subsidies' in our data. Food, fertilisers, and fuel (the 3Fs)[6] are the three most important forms of subsidy expenditure by the Union– and constitute 85% of reported total subsidy expenditure (Figure A1 in the Annexure). These are discussed in more detail in subsequent sections.

2.2 Union's Data Gaps

The reported subsidy spending of the Union does not include other means of financing subsidies – deferred payments/carry forward liabilities, extra-budgetary resources (EBRs), and special securities – and other subsidy-related spending, for example, Production-linked Incentive (PLI) schemes. These are subsequently added to the reported subsidy figures to develop a more accurate estimate of Union

subsidy spending (Table A1). In our analysis, and to the extent possible, we have included subsidy expenditure in the fiscal year when it accrued.

2.2.1 Other Means of Financing Subsidies

(i) Deferred Payments

GoI has often deferred subsidy payments to fertiliser manufacturers, Oil Marketing Companies (OMC), and the FCI when the actual subsidy disbursed in a year exceeded budgetary allocations. Global price fluctuations, supply-chain disruptions, and domestic uncertainties (for example, the COVID-19 pandemic) have resulted in sudden subsidy payments that were not provided during budget-setting. In such cases, the government has typically run into arrears or accumulated carry-forward liabilities to be paid in subsequent budget outlays.

In the case of fuel subsidies, "Compensation to Oil Companies for under-recoveries on account of sale of sensitive petroleum products" was included in the calculation of fuel subsidy between FY10-FY157. In FY23, GoI paid Rs. 22,000 crores as a one-time grant to PSU OMCs for under-recoveries8 to compensate for their previous revenue shortfalls. This expenditure, although met from the budget, was not included in the official Statement 7. This reflects an inconsistency in the calculation of subsidy and constitutes a data gap. We include the FY23 payment for under-recoveries in our actual estimates.

The Standing Committee on Chemicals and Fertilisers (2020) spotlighted insufficient budget allocations as the main cause of delayed settlement of subsidy bills, and recommended a one-time additional budget allocation to clear pending dues. By end-FY19, more than Rs. 43,000 crore had been accumulated in dues to the fertiliser industry by the Union (CAG 2022, 24). CAG observed that the revised estimate for FY21 made provisions for clearing carry-forward liability in that year. These are, therefore, already accounted for in the reported subsidy figures. However, they do not correctly reflect the year in which actual subsidy spending was incurred.

(ii) Extra Budgetary Resources

EBRs of Public Sector Enterprises (PSE) are "borrowings which are not reflected in the budget, even though budgetary resources will have to be used for their repayment either in the current or future period" (Gupta and James 2023, 5). For example, PSEs like the FCI rely fully on the government to meet their liabilities as they have no other sources of income. Such EBRs have been used to finance food subsidies in the past, and have been leveraged for fertiliser subsidisation as well.

To meet excess food subsidy requirements over and above budgetary allocations, the Union extended NSSF loans to the FCI through the Public Account[9]. In FY21, this off-budget borrowing was discontinued, and the cumulative liability of more than Rs. 425,000 crore was brought on-

budget. To correctly reflect this NSSF liability in the year to which it accrues, we have spread this cumulative liability across the years (FY17 to FY21) in which they were raised. Additionally, the FCI also borrows from other sources, such as through cash credit limits and ways and means advances, to cover food subsidy expenditures[10] (FCI, n.d.). At the end of July 2024, these borrowings stood at Rs. 63,000 crore. We have added them to the estimate of the current FY to reflect the food subsidy expenditure of the Union in FY25, thereby considering them as on-budget subsidies (although they were probably used to finance subsidies in previous years).

GoI has also arranged Special Banking Arrangement (SBA) loans from Public Sector Banks for fertiliser producers to meet unpaid subsidy bills, with GOI absorbing their interest liability (Standing Committee on Chemicals & Fertilisers 2020). In this context, a 2022 CAG Report states that information on such SBA loans, that were used for meeting fertiliser producers' claims, were not furnished for audit, thereby reflecting their status as EBR. Because these EBRs were raised to finance subsidy expenditure, they certainly need to be added to the reported subsidy figures. However, in this case, data non-availability has restricted us from doing so.

(iii) Special Securities

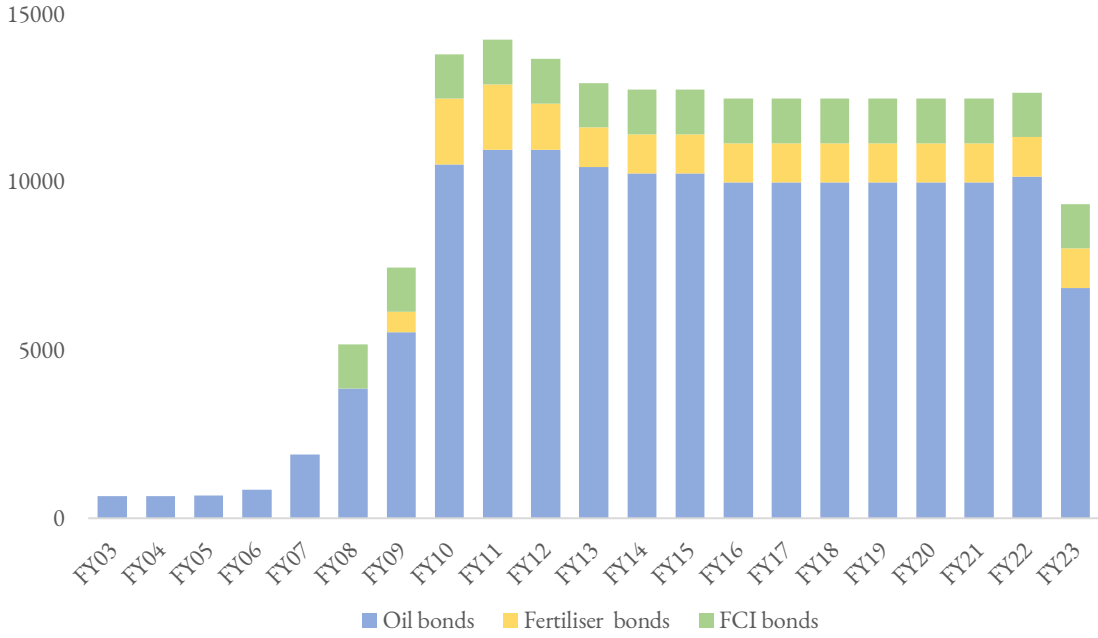
In addition to the subsidy paid in cash, GoI also finances subsidy bills by issuing special securities or bonds to OMCs, FCI, and fertiliser companies. These instruments compensate providers, manufacturers, and distributors of subsidised goods when budget allocations fall short of the subsidy burden. They are a form of dated government securities – long-term market instruments issued at face value[11] (RBI 2020).

Data on principal is only available from FY08 onwards in the Union Budgets. Therefore, we only have the cumulative outstanding principal (Rs. 81,638 crore through 17 bonds) as of FY08, and cannot ascertain precisely when each bond was raised. As such, we have added the outstanding principal as of FY08 to the reported subsidy for the same year.

Between FY09 and FY10, eight new bonds worth more than Rs. 100,000 crore were issued, which led to a proportional increase in the outstanding principal of GoI (Figure A2). This principal raised in FY09 and FY10 should be added to the reported subsidy of the budget in those years, to reflect the true extent of subsidisation. We, therefore, add the principal raised from FY09 onwards to the reported subsidy of respective years to estimate actual subsidy spending.

Alongside these, GoI made interest payments on these special securities. It can be inferred that interest payments must have seen a declining trend from FY23 as bonds mature[12], as can be seen in Figure 8. These interest payments, like the principal raised by issuing bonds, are not reflected in the reported subsidy of the Union Budget. Interest payments, in essence, reflect the cost of deferring subsidy payments to the future. Excluding the value of the bonds and their interest payments from the total subsidy underestimates GoI's actual expenditure on subsidies.

Figure 8: Interest Paid of Special Securities Issued in lieu of Cash Subsidy (in Rs. crore)



Source: Finance Accounts, CGA

2.2.2 Other Subsidy-Related Expenditure

The Union introduced PLI schemes beginning in FY22 to catalyse private investments in key sectors. PLIs offer financial incentives or subsidies to eligible manufacturers in specific sectors. Although PLI spending has been slow to be implemented and disbursed (and is still a fraction of other subsidies), those under the Ministry of Electronics and Information Technology and the Ministry of Heavy Industries have seen a larger increase since FY23. At present, nine ministries administer 13 schemes for various sectors, with a cumulative budgeted expenditure of over Rs. 14,000 crore in FY25. While just a fraction of GDP, this has increased manifold from just Rs. 10 crore in FY22. PLIs are listed under Central Sector Schemes' spending in the budget and excluded from Statement 7. However, because PLI schemes are, in essence, subsidies to manufacturers of certain goods, they should be included in the Centre's subsidy expenditure. We have, therefore, included them in the 'Others' category.

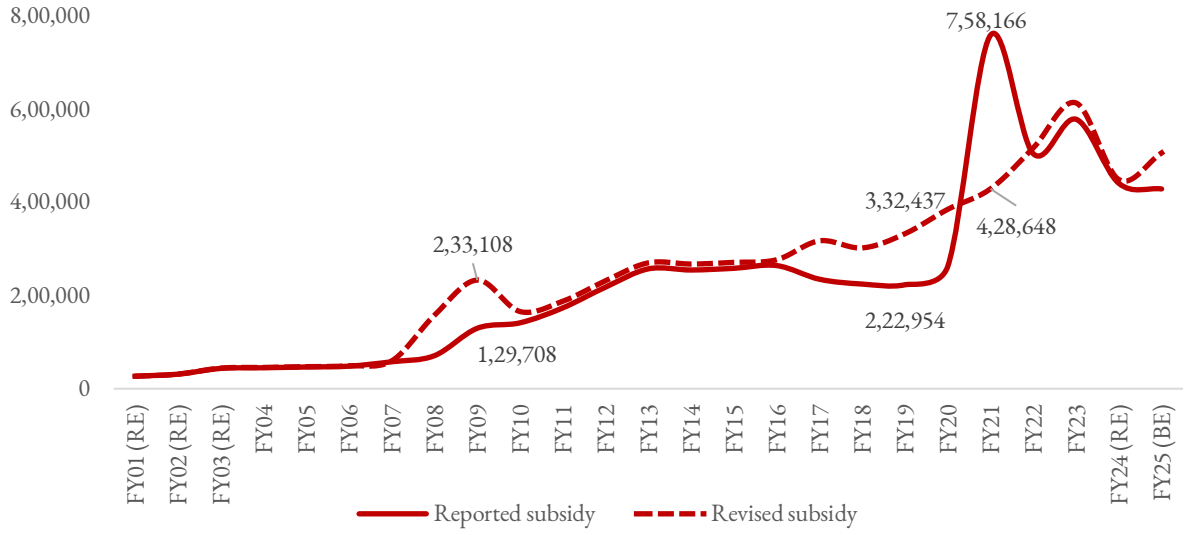
2.3 Union's Estimated Total Subsidy

Table 1: Formula for Calculating Actual Subsidy of the Union

Actual Subsidy	=	Reported Subsidy (as per Statement 7)	+	Principal raised through bonds	+	Interest payments on bonds	+	Other related spending	+	Deferred liability	+	EBRs	+	Other borrowing liabilities
Fuel	=	Reported	+	Principal raised	+	Interest payments	+			Under-recoveries of OMCs in FY23				
Fertiliser	=	Reported (inclusive of carry forward liability in FY21)	+	Principal raised	+	Interest payments								
Food	=	Reported	+	Principal raised	+	Interest payments	+				(-)	NSSF loan takeover in FY21	+	NSSF loan takeover of FY21 spread across FY17 to FY21 + FCI's other borrowing liabilities (as of 30.07.2024)
Others	=	Reported (inclusive of interest and other subsidies)	+					PLI schemes' expenditure						

The actual subsidy, inclusive of the reported figures, includes deferred payments or carry-forward liabilities, EBRs and special securities or 'bonds issued in place of cash subsidy', and other borrowing liabilities (Table 1), as far as data availability and compatibility allow. Actual subsidy figures are, therefore, greater than the reported subsidy. Figures 9 and 10 present the changes in reported and actual subsidies.

Figure 9: Union's Reported Subsidy v/s Actual Subsidy (in Rs. crore)



Source: Union Budgets, GoI; CAG; FCI

Figure 10: Union's Reported Subsidy v/s Actual Subsidy (as % of GDP)

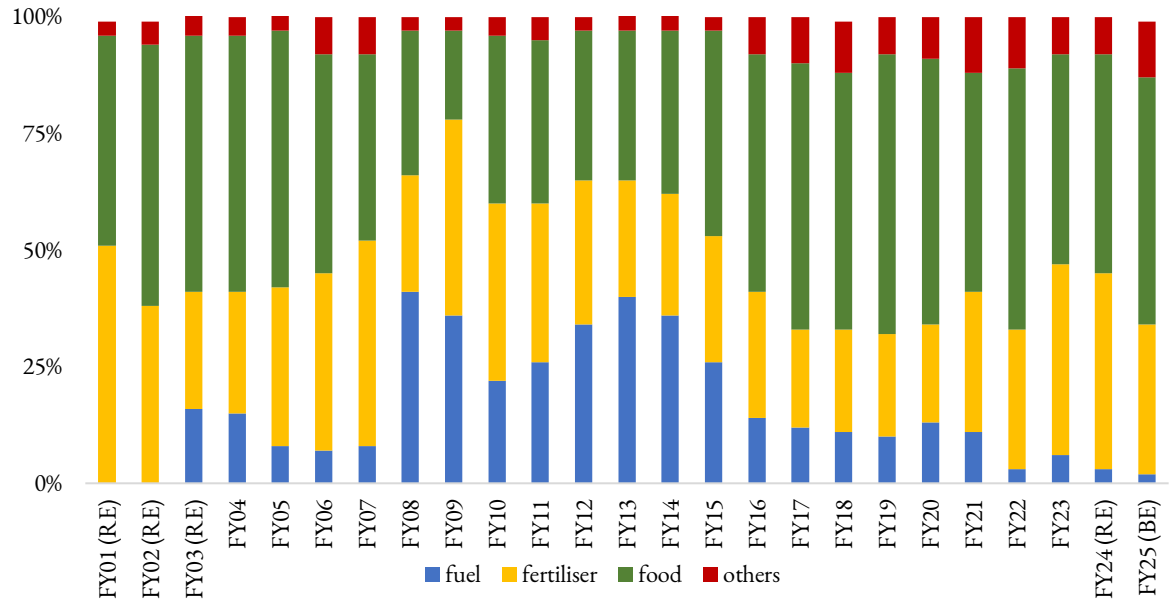
Source: Union Budgets, GoI; CAG; FCI; RBI

The main differences between the reported and estimated actual subsidy of GoI during the period reviewed are as follows:

- Between FY01-FY07, the actual subsidy conforms closely to the reported subsidy– the minor underestimation of subsidy is primarily due to the addition of interest paid on fuel bonds. During this period, special securities were also raised by the Union. However, the data on principal liability for these years are unavailable. Hence, the actual figures before FY08 are likely underestimated.
- The cumulative principal liability raised on these securities until FY07 has been added to FY08. Therefore, the actual subsidy of FY08 is overestimated in our calculations, since these bonds were raised before that year.
- Between FY09-FY10, the actual subsidy was more on account of the bonds raised by the Union to finance additional subsidies. Actual subsidy expenditure as a percentage of GDP reached its peak of more than 4% in FY09. In the following six years, reported subsidy expenditure was undervalued, due to the exclusion of servicing of interest on oil, food and fertiliser bonds.
- The reported subsidy for FY21 decreased due to the reallocation of NSSF loans to the years they were originally issued. This significantly lowered the FY21 figures while increasing those for prior years. We, therefore, see an increasing trend in total subsidy (until FY23). Contrary to the reported figures, the actual subsidy did not decrease during FY21-FY22, instead it increased by over Rs. 87,000 crore.

- In the current fiscal year i.e. FY25, GoI has budgeted Rs. 428,423 crore for subsidy expenditure. Additionally, the Union has budgeted Rs. 14,183 crore to be spent on PLI schemes. Moreover, the FCI has an ongoing borrowing liability of Rs. 63,078 crore. If GoI were to pay off all liabilities of FCI in the current year, all these cumulatively would amount to a total subsidy expenditure of Rs. 505,684 crore, 18% more than budgeted.

Figure 11: Composition of Union's Actual Subsidy Expenditure



Source: Union Budgets, GoI

Figure 11 reflects the composition of the actual Union subsidy, with the following highlights:

- Reported subsidy figures significantly underestimate the actual fuel subsidy. For example, the government reported only about Rs. 2,800 crore as fuel subsidy expenditure in FY09, and deferred payment of as much as Rs. 76,000 crore to the future by issuing bonds. Consequently, the fuel subsidy accounted for 36% of the total subsidy in FY09 upon revision, compared to just 2% in the initially reported figure.
- Due to spreading of the NSSF loans from FY21 to the years in which they were actually raised, the share of actual food subsidy reduces in comparison to the reported. Food subsidy's share decreased from 71% of total subsidy (reported) to 47% (actual) in FY21.
- Adding PLIs to reported subsidy figures increases GoI's subsidy expenditure on 'Others' by 30% in both FY24 and FY25. The average share of 'Others' on the total actual subsidy expenditure remains unchanged.

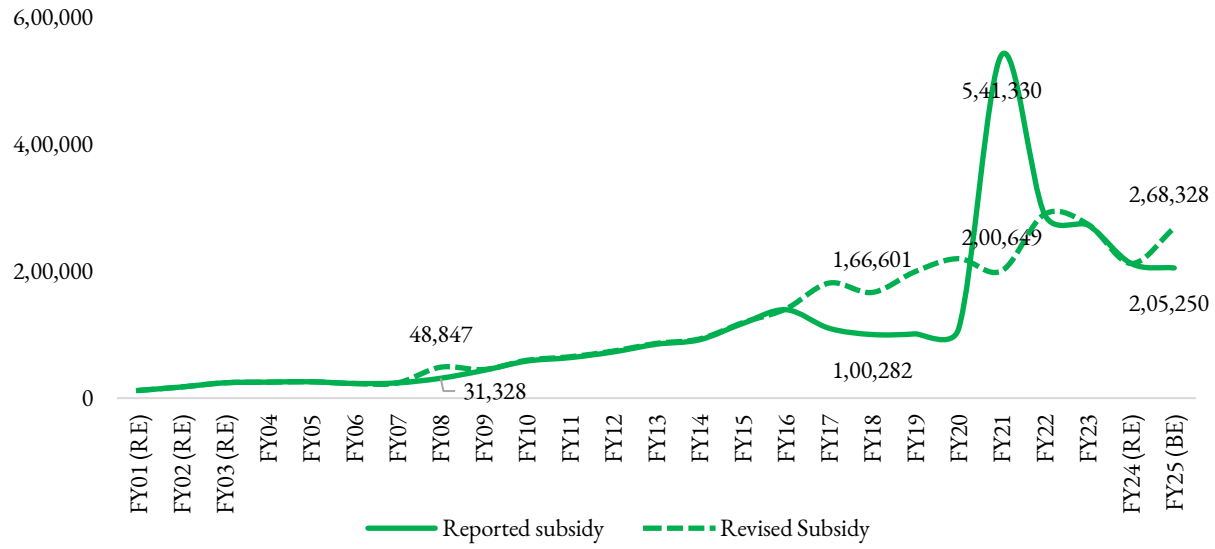
Food, fertilisers, and fuel, therefore, comprise the most crucial commodities for which the Union has to ensure adequate provisioning and subsidisation, and their burden can alter GoI's fiscal bandwidth significantly. These are discussed briefly in the following section.

It should be noted that the actual data presented here is likely understated since many subsidy-equivalent schemes have not been included, as pointed out earlier. If financial support schemes like PM-KISAN and Pradhan Mantri Awas Yojana (PMAY), among others, were to be accounted as subsidies as per the definition in the Aadhaar Act, the estimated total subsidy spending would increase significantly. However, as explained earlier, these have not been categorised as subsidies in this paper and have been shown as part of other welfare related spending in Figure 4 above.

2.3.1 Union's Food Subsidy

Food subsidies in India have been used for the dual purpose of protecting farmers against market price fluctuations of their produce and providing[13] food grains at negligible or free of cost to those who cannot afford them. It is, therefore, a producer and a consumer subsidy. Farmers are offered an MSP at which the government procures the produce, which is then distributed to the consumers at a Central Issue Price (CIP). The difference between the MSP and the CIP is termed a subsidy.

Figure 12: Food: Union's Reported Subsidy v/s Actual Subsidy (Union) (in Rs. crore)



Source: Union Budgets, GoI; CAG; FCI

Note: The data for FY25 also includes FCI's other borrowing liabilities.

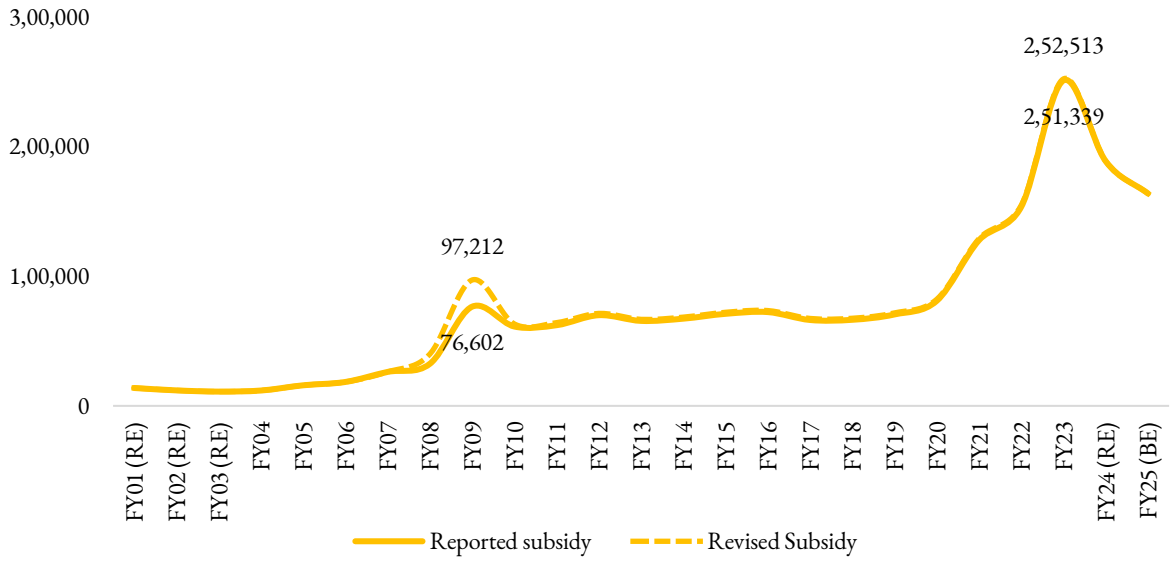
The centre's actual food subsidy bill stood at a little over 1% of GDP in FY23 (Figure 12). Additionally, the Union also incurred expenditure on facilitating grain movement and other logistical support such as storage and godowns. Spending on food subsidies is, therefore, understated. A

comprehensive analysis of spending on food subsidies needs to include these costs. Till FY21, central sector schemes of around Rs. 9,500 crore supported the Public Distribution System (PDS) and foodgrain management[14]. Most importantly, states are spending over and above the Union's expenditure on food subsidies. Together, this makes overall state involvement in agriculture a significant public enterprise, with little impact on improving the productivity and incomes in the sector. The expenditure by states on food subsidies is discussed in the next section.

2.3.2 Union's Fertilisers Subsidy

The Union Government's Department of Fertilisers (DoF) subsidises fertilisers for both agricultural and industrial use through two key schemes: Urea subsidy[15] and Nutrient-based subsidy (NBS) for phosphate and potash (P&K)[16] fertilisers. Both subsidies are producer-based i.e. GoI directs them to manufacturers/importers of fertilisers. Figure 13 shows the reported and actual subsidy on fertilisers, and there is little difference between them. The only major difference occurred in FY09 when special securities worth Rs. 20,000 crore were issued to fertiliser companies. Between FY11-20, actual fertiliser subsidy expenditure was relatively stable. After that, it consistently increased till 2023.

Figure 13: Fertilisers: Union's Reported Subsidy v/s Actual Subsidy (in Rs. crore)



Source: Union Budgets, GoI; CAG

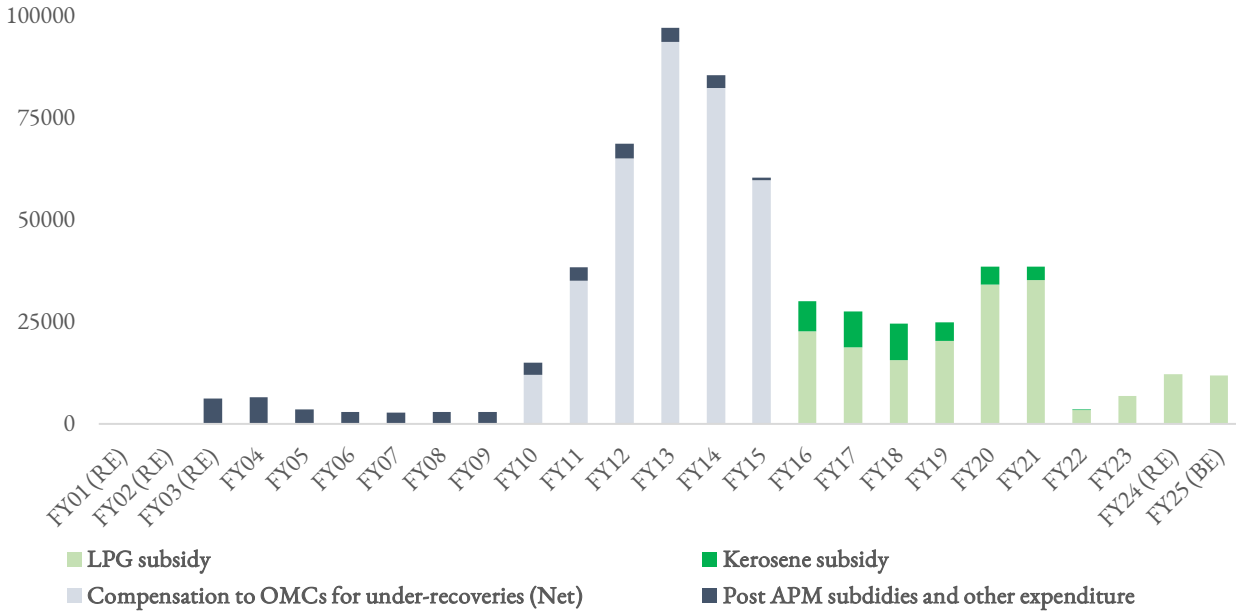
Box 2: Change in accounting heads for fertiliser subsidy

Until 2010, fertiliser subsidies, comprising P&K fertilisers and urea, were accounted under "Agriculture and Allied Activities" of Economic Services in the finance accounts. It must be noted that urea is also widely used to produce dyes, pigments, plywood, and adhesives. In 2010, urea subsidies came to be accounted under "Industry and Minerals" as subsidies provided to industrial units (Pathak et al., 2024; CGA, 2023). This led to an underestimation of the share of fertiliser subsidies in GoI's agricultural spending. However, urea is not used only by industries. A large portion of it, called agricultural-grade urea, is used by farmers. Such inconsistencies in calculations lead to incorrect estimations of subsidies going to agriculture. Moreover, changes in accounting heads are not transparently available in the finance accounts, making it more challenging to accurately assess subsidy expenditure.

2.3.3 Union's Fuel Subsidy

What is reported as fuel subsidy has changed every few years, making fuel subsidy data difficult to comprehend unless carefully triangulated through different documents. Before FY03, GoI maintained cross-subsidised prices for certain users, by commensurately taxing another set of users. This was called the Administered Pricing Mechanism (APM). As seen in Figure 14, between FY03-09, fuel subsidy included 'post APM subsidies and other expenditure'.

Figure 14: Breakdown of Union's Reported Fuel Subsidy Spending (in Rs. crore)

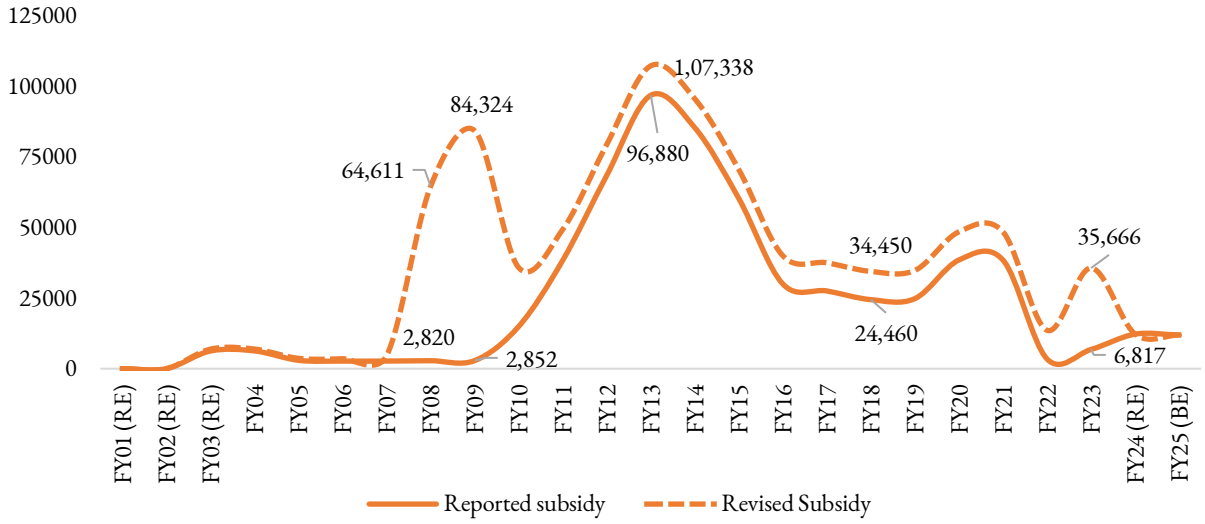


Source: Union Budgets, GoI

In Figure 14, under-recoveries are seen FY10 onwards. The compensation to OMCs for under-recoveries was also being paid in the earlier years by the government. However, these were met with equal 'deposits by the OMCs' to GoI, leaving the net payment from the Union to OMCs to be zero till FY10.

Later, fuel subsidies came to include both 'post APM subsidies' and under-recoveries. In FY13, GoI removed subsidies on diesel. Subsidy spending on fuel then decreased substantially by FY16, supported by international oil prices declines. Fuel subsidy now comprised only LPG[17] and kerosene. Kerosene subsidy was gradually decreased till FY22 and discontinued in subsequent budgets. LPG has, thus, been the main fuel subsidy[18] since FY16.

Figure 15: Fuel: Union's Reported Subsidy v/s Actual Subsidy (in Rs .crore)



Source: Union Budgets, GoI; CAG

Figure 15 reflects the actual fuel subsidy expenditure of the Union vis-a-vis what is reported. Between FY03-07, the actual fuel subsidy was underestimated on account of interest payments[19] on oil bonds. Data availability restricts us from estimating special securities between FY03-FY08. In FY09, while the cash subsidy as reported by the Union was Rs. 2,800 crore, bonds worth Rs. 76,000 crore were issued in lieu of cash subsidy. The issuance of oil bonds was discontinued in FY10, and subsidies were provided thereafter through direct budgetary allocations (DEA 2015). FY22 marked a sharp fall in reported fuel subsidy, with both Pratyaksh Hanstantrit Labh (PAHAL) and Pradhan Mantri Ujjwala Yojana (PMUY) seeing sharp reductions in expenditure. Reported subsidy, nevertheless, underestimated actual subsidy in FY22 on account of interest payments on special securities used to finance them.

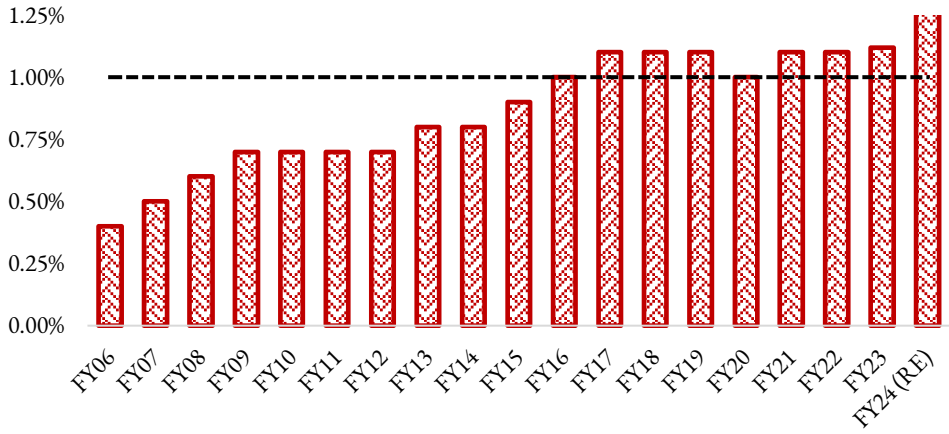
3. States' Subsidy Expenditure

In addition to the many subsidies the Union government provides, the state governments also routinely employ subsidies to improve accessibility and affordability of 'essential' goods and services. States provide details of their subsidy spending in Appendix II: Comparative Expenditure on Subsidy of the State Finance Accounts, hereafter referred to as subsidy statements. States primarily allocate subsidies to 'agriculture and allied activities' (including food, storage, warehousing and crop husbandry, and irrigation among others), and power. Subsidies are also incurred on rural development and the industrial sector. Because the development needs of each state vary vastly, their subsidy spending patterns are also substantially different.

3.1 States' Reported Subsidy

Figure 16 shows the total subsidy expenditure of the states (as reported) has been consistently increasing since the early 2000s (Figure 16). In FY23, the total spending of all states on subsidies was more than 1% of India's GDP, broadly equivalent to 8.6% of overall state revenue expenditure and 5.6% of overall state spending.

Figure 16: State Subsidy Spending as a % of National GDP



Source: State Finance Accounts, CAG; RBI; CGA

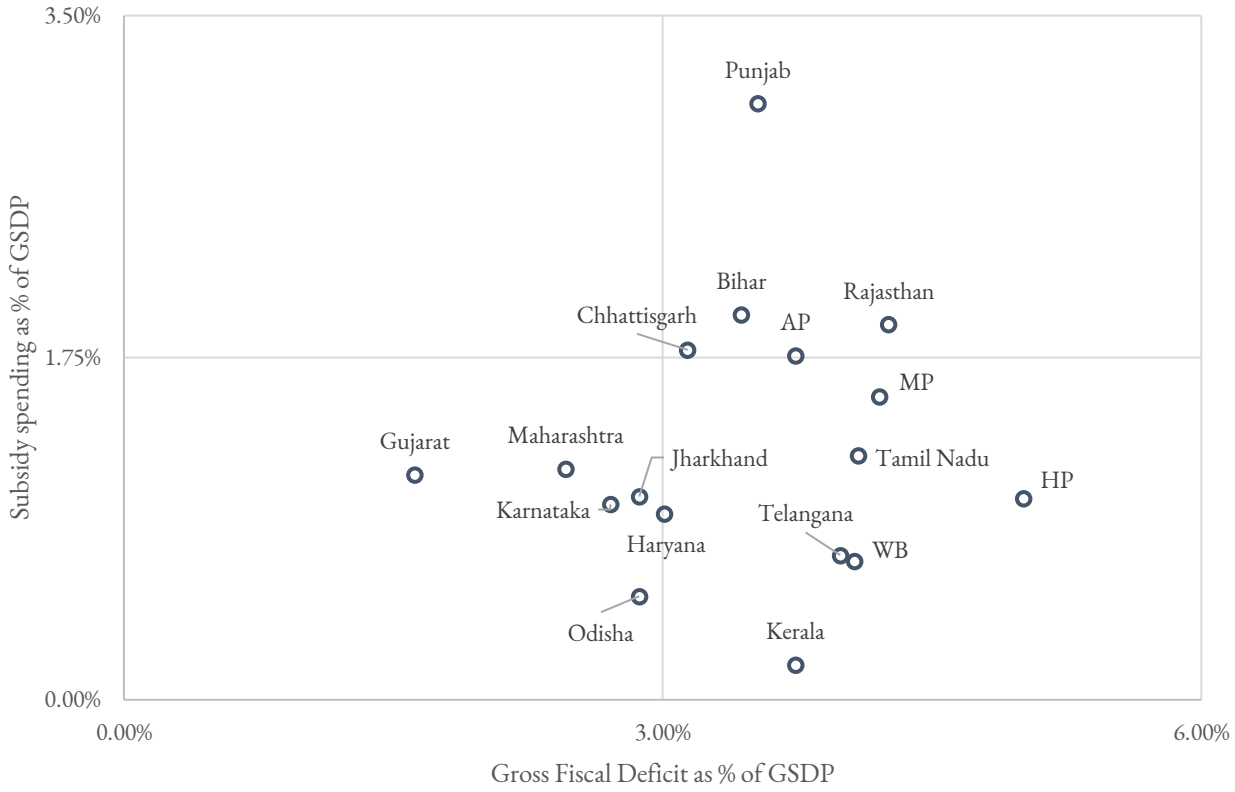
In this paper, we have reviewed the subsidy statements of 18 states[20]. Figure 17 shows the subsidy expenditure of these states relative to their fiscal deficits (as a percentage of their GSDP).

States in the top-right quadrant have fiscal deficits exceeding the FRBM target of 3% and also have relatively high subsidy spending as a percentage of GSDP. The bottom right quadrant contains states with high fiscal deficit, but relatively lower subsidies. Lastly, the bottom left quadrant depicts states with relatively low subsidy spending and fiscal deficits under 3% of GSDP.

Figure 18 highlights subsidy trends for select states from each quadrant. These are also the top spenders on subsidies, as a percentage of GSDP, in FY23. The subsidy expenditure for all the states for FY06-FY23 can be seen in Table A2.

- In the top right quadrant, both Punjab and Bihar maintained fiscal deficits of around 3.5% of GSDP in FY23. While Punjab's subsidy spending exceeded 3%, Bihar's was close to 2%. Both states have seen rising subsidy trends since the pandemic.
- Rajasthan, Andhra Pradesh, and Chhattisgarh also fall in this quadrant, each spending upwards of 1.5% of GSDP on subsidies. Rajasthan saw an increase in subsidies during FY22 and FY23. Chhattisgarh's subsidies peaked at 3.33% in FY20, the highest for any state between FY06 and FY23. For Andhra Pradesh, data post-bifurcation (FY15 onwards) shows a sharp upward trend in subsidies.
- In the second group, characterised by high fiscal deficits and low subsidy spending, Tamil Nadu kept its subsidies between 1-1.5% of GSDP from FY06 to FY23. Madhya Pradesh saw an increasing trend in subsidies until FY18, after which it declined.
- From the bottom left quadrant, Gujarat recorded low subsidy spending and fiscal deficits, maintaining subsidies at around 1% of GSDP throughout. Jharkhand's subsidy expenditure witnessed a sharp increase in FY19, from almost none until FY15. Maharashtra's spending on subsidies has seen a moderate increase but has remained within 0.5-1.5% of GSDP.
- To analyse the states' subsidy expenditure relative to their incomes, we refer to per capita income data from Sanyal and Arora (2024). High-income states usually have a greater fiscal capacity to provide subsidies, although with less need relative to their income status. As such, the highest-income states including Kerala, Tamil Nadu, Telangana, Gujarat, Haryana, and Karnataka, provided the least subsidies in FY23. In contrast, lower-income states like Bihar and Chhattisgarh allocated a larger share of their GSDP to subsidies. Interestingly, other lower-income states, like Jharkhand and West Bengal, spent comparatively less. Middle-income states like Punjab and Andhra Pradesh provided higher subsidies compared to others.

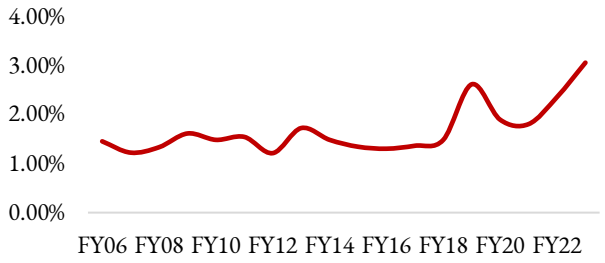
Figure 17: States' Subsidy Spending and Gross Fiscal Deficit as % of GSDP in FY23



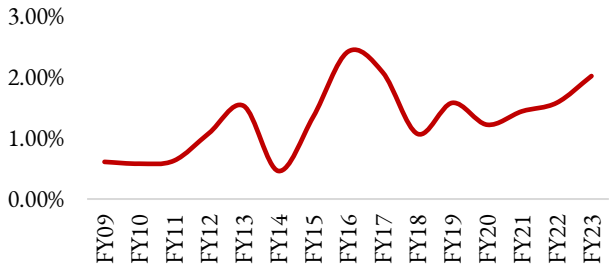
Source: State Finance Accounts, CAG; RBI; Economic Survey of Maharashtra 2023-24
Note: Data on subsidy spending of West Bengal is from RBI.

The breakdown of subsidies of these states and others will be discussed in more detail in the following subsections. Before this, it is important to address the data issues that affect the accounting of states' subsidies.

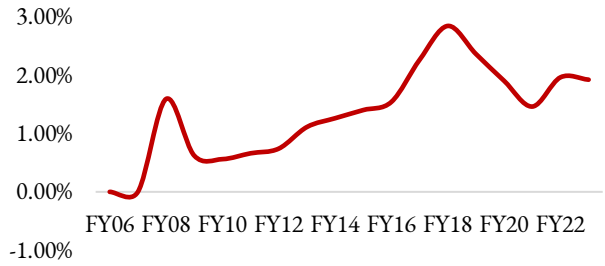
Punjab



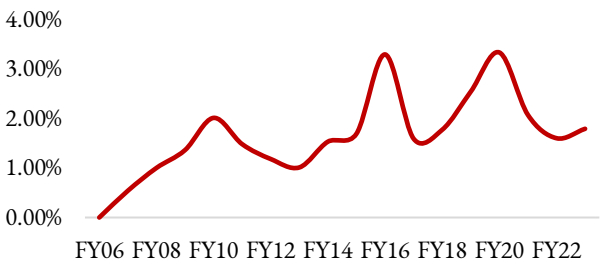
Bihar



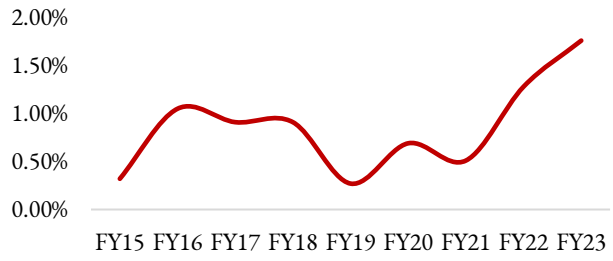
Rajasthan



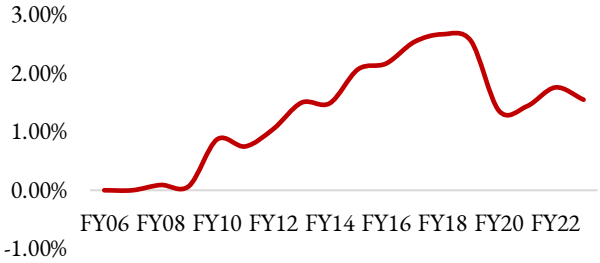
Chhattisgarh



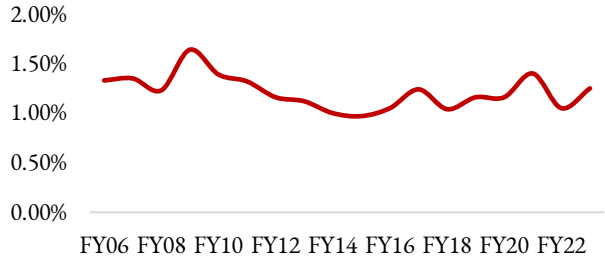
Andhra Pradesh



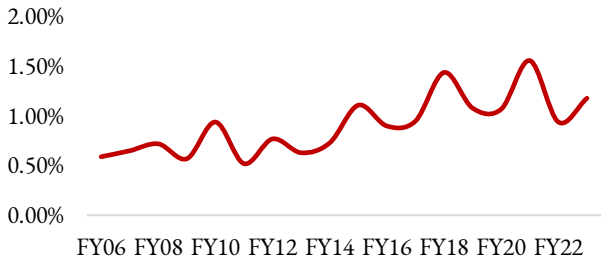
Madhya Pradesh



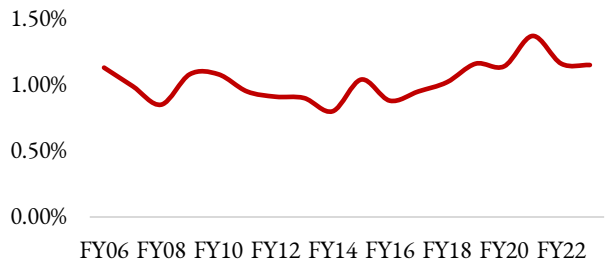
Tamil Nadu



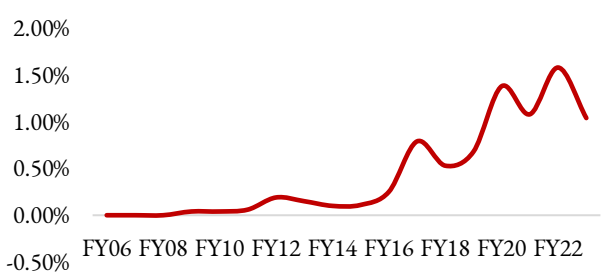
Maharashtra



Gujarat



Jharkhand



3.2 States' Data Gaps

Similar to the Union, state governments also use other financial means, typically from extra budgetary sources, to supplement their spending aside from what they report in budgets and financial statements. These have been used to finance a variety of spending patterns, including on subsidies and, more generally, on other welfare-related and capital expenditures. The data on such extra budgetary sources are, however, difficult to consistently obtain and, hence, our estimates of actual subsidy spending by states is under-estimated,

Additionally, different government entities and reports use varying definitions of what constitutes a subsidy. Some subsidies are in the form of direct transfers, while others are in-kind, implicit, or tax-based, making it difficult to quantify them comprehensively. As a result, state governments also classify their expenses as subsidies differently. This renders subsidy statements incomparable across states and over the years.

The following section describes the data gaps in the accounting of subsidies by states.

3.2.1 Other Means of Financing Subsidies

(i) Deferred Payments

Many state governments delay payments for subsidies or defer costs, making it difficult to get a real-time picture of total subsidy spending. For example, the largest fraction of the power distribution sector's revenue constitutes receivables from state governments – a significant part of which remain unpaid (Devaguptapu & Tongia 2020). As per the Power Finance Corporation's (PFC) reports on the Performance of Power Utilities, unpaid subsidies for all states taken together were the highest in FY21 at over Rs. 21,000 crore, possibly incurred as states tried to redirect their tight finances towards pandemic management. Adding all unpaid state subsidies over the period FY10-FY21 totals Rs. 74,000 crore.

Unpaid and deferred subsidies are, therefore, a key factor in explaining the deteriorating financial health of the power distribution sector in India (ibid). In the two years after FY21, state governments paid off subsidy arrears worth Rs. 27,000 crore (Devaguptapu 2024). These unpaid subsidies are not included in our actual subsidy estimates, as we found significant discrepancies in the data provided by PFC and states' respective subsidy statements. Thus, the data from the PFC could not be added to the data from state finance accounts. This data gap is discussed further in the later section on power.

(ii) EBRs

Government-backed entities and PSEs receive financial support from states in the form of equity, loans, grants, and subsidies. Some of this funding is channelled via extra-budgetary means. Subsidies

may also be provided off-budget, through these entities, without being directly reflected in the government's budget. For example, losses incurred by public utilities, such as state electricity boards, equate to subsidies although they do not appear in official budget documents. State PFCs use funds from state governments for subsidy payments, covering losses, and fulfilling capital and operational needs, with a significant portion directed towards subsidies. In FY21, various state PFCs received at least Rs. 40,000 crore in the form of EBRs (Gupta and James 2023).

In another case, Andhra Pradesh's reported total expenditure on subsidies was close to Rs. 5,000 crore in FY21, about half a percent of GSDP. However, in the same year, the extra-budgetary burden of the state was 9% of its GSDP. Of this, the majority was spent on the State Food Civil Supplies Corporation and its Power Finance Corporation (Gupta and James 2023). Thus, if EBRs used by states to finance subsidy schemes were to be included like it has been done for the Union, actual subsidy expenditure would be far higher. However, given their varying use by states and the lack of information around them, it is difficult to determine the purpose of extra-budgetary financing of an entity, i.e. whether it is for subsidies, operational costs, or capital infusion. Therefore, extra-budgetary financing of subsidies is excluded in the discussion that follows.

3.2.2 Other Subsidy-Related Expenditure

Aside from the non-reporting of deferred payments and EBRs, states' classification of subsidy spending is incongruent with established accounting rules. In the absence of a well-defined definition for 'subsidy', while some states include items such as freebies, financial incentives and implicit subsidies in their subsidy statements, others do not.

(i) Financial & Tax Incentives

Some sectors, like infrastructure, receive indirect subsidies through lower interest rates, tax breaks, or access to cheap land. These are often not captured comprehensively in subsidy data. CAG's 2024 State Accounts Audit Report for Karnataka reveals that the state extended additional financial assistance and incentives as subsidies, beyond what was reported in the subsidy statement. In FY23, these unreported subsidies exceeded Rs. 3,000 crore, raising the total from Rs. 22,000 crore to over Rs. 25,000 crore. Notably, such comprehensive audit reports are not available for all states.

In FY23, Gujarat provided fuel subsidies to fishermen in the form of tax rebates. Tax exemptions, rebates, and deductions often function as subsidies (e.g., lower tax rates for certain industries or sectors). However, aside from Gujarat, tax expenditures are not always fully captured or accounted for in subsidy calculations of other states.

(ii) Freebies

Many states spend heavily on freebies, such as distributing free laptops, gas cylinders, and bicycles, along with providing financial aid to women, farmers, and unemployed youth. For example, 9% of

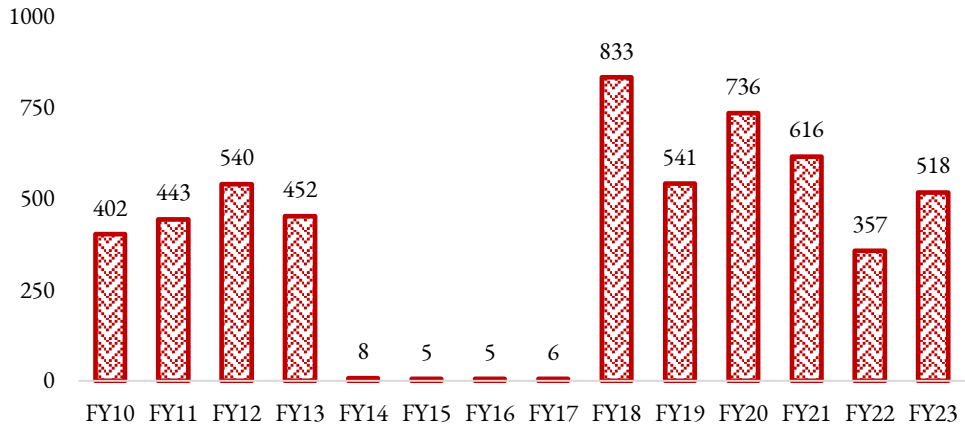
Tamil Nadu's total subsidy spending in FY23 was on the provision of free bus travel for women in the state under the Vidiyal Payanam Scheme. It is noteworthy that this expense more than doubled from the previous year in FY23 – only one of the many instances of the increased prevalence of 'freebies'. However, not all states list these kinds of financial or in-kind support as subsidies in the finance accounts. A free bus ride scheme has also been implemented in Punjab since FY21; while this is not reported in Punjab's subsidy statements, the Rs. 65 crore spent on distributing free textbooks to school students in FY22 and FY23 each, is included in Punjab's subsidy calculation.

Identifying each government scheme, programme and financial incentive which is in the form of a subsidy, across states and over the years, would require a clear and uniform criterion. Moreover, it is unclear where to identify these other related expenditures in the financial statements. Thus, as these schemes are not consistently available, we have limited our data to the published subsidy statements. If other related schemes were included, the actual state subsidies would be significantly higher.

(iii) Implicit Subsidies

Financial statements and budgets only present information on subsidies paid out explicitly. However, implicit subsidies remain hidden, and their costs are unrecovered in the provision of other private social/economic goods. Because these subsidies remain beyond the purview of budgets and finance accounts, their use can remain unchecked. States also do not provide any data on implicit subsidies, with Odisha as an exception. Figure 19 shows the implicit subsidy expenditure of Odisha between FY10-FY23.

Figure 19: Odisha's Reported Implicit Subsidy Expenditure (in Rs. crore)



Source: State Finance Accounts, CAG

However, Odisha does not provide any other details except the totals, and there seems to be no pattern in the reported implicit subsidy spending by Odisha. Aside from possibly indicating inconsistent accounting and categorisation of implicit subsidy, the reported data provides no information on the nature of this implicit subsidy spending. It is important to note the sudden

increase in implicit subsidy spending between FY17-FY18, and that in FY18, this expenditure was as much as one-third of the explicit subsidy expenditure. Such large figures warrant a detailed analysis, and therefore must be carefully measured, disaggregated, and reported. Thus, to comparably assess implicit subsidy spending across all states, a clear definition and uniform and transparent accounting procedures must be developed.

3.2.3 Incomparable Subsidy Statements

States' subsidy statements also follow varying formats[21], resulting in data gaps which disallow comparisons between states:

- States provide information under varying column headings (refer to Note 2 in the Annexure). For example, Madhya Pradesh does not give the scheme name under the description. Hence, we do know where the expenditure was incurred (agriculture, fisheries, food, etc), but the details of the nature of the expenditure remain unknown.
- As per Rule 26(d) of the Government Accounting Rules, 1990[22], "*the order in which the Major and Minor Head shall appear in all the account records shall be such as prescribed by the Central Government*" (CGA 1990). However, in Gujarat and Maharashtra's subsidy statements, major heads follow no order, leading to one major head spread across the subsidy statement and the expenditure under it not presented in a consolidated manner. In Gujarat, the major head '2401-Crop Husbandry' falls under the Agriculture, Tribal Development, and Social Justice Department. Such variations in format make it difficult to assess and consolidate the totals of each major head or department.
- Different states sometimes classify the same scheme under varying major heads. For instance, while most states categorised the cooking oil subsidy as a 'food subsidy,' some labelled it as a 'subsidy for women's development.' Similarly, power subsidies are listed differently across states. Major head '2801' is typically assigned for revenue expenditure on power. While Karnataka accounted for its power subsidy solely under this head, Punjab recorded it under '2801 - Power', '2401 - Crop Husbandry', and '2852 - Industries.'

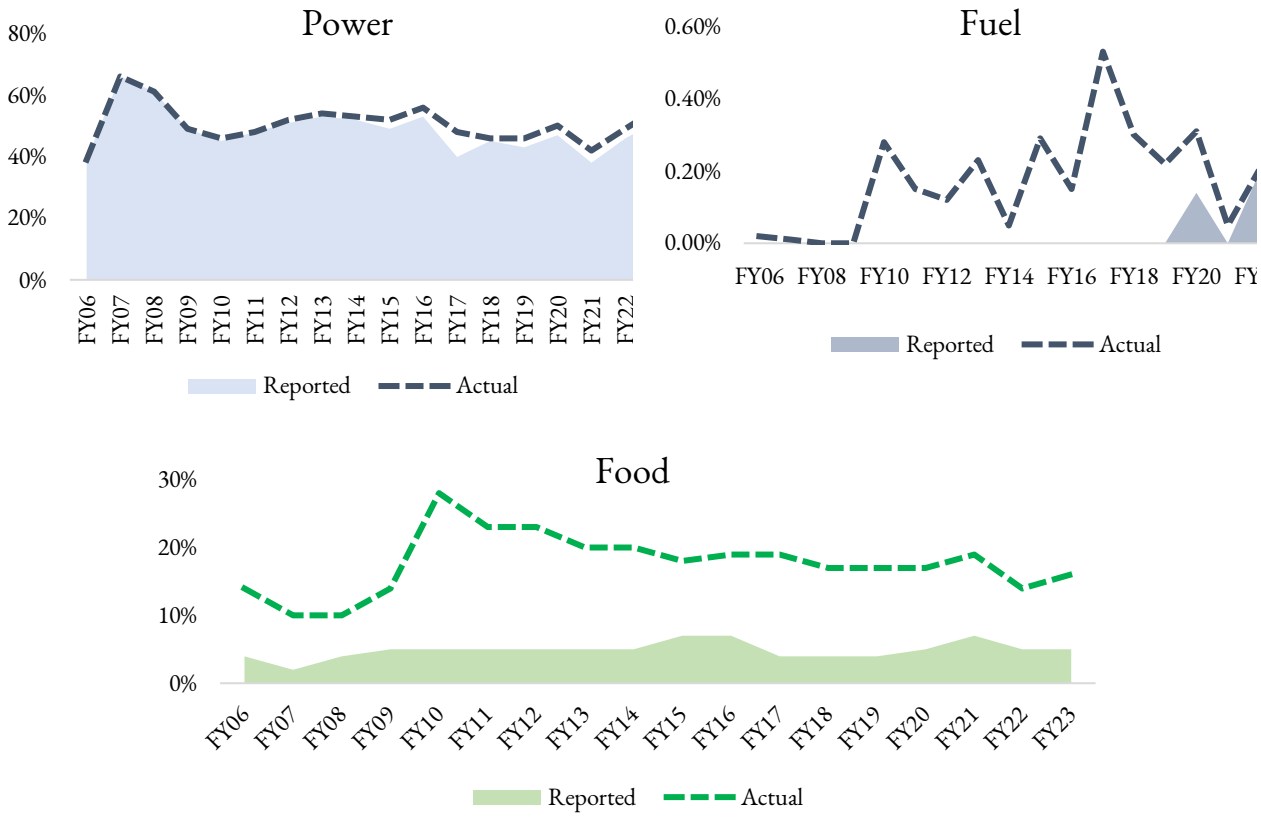
Rule 29 of the Government Accounting Rules requires that "the classification of transactions in Government accounts, shall have closer reference to the function, programme and activity of the Government and the object of the revenue or expenditure, rather than the department in which the revenue or expenditure occurs" (CGA 1990). Accordingly, to accurately assess total subsidy expenditures on food, fuel, and power, we consolidated subsidies by item. This required assessing each entry in the subsidy statement and classifying it under food, power, petroleum, new and renewable energy, or others.

For example, a subsidy under the designated major head for food subsidies '2408' is considered a reported food subsidy. Our actual food subsidy includes additional food subsidy schemes which are classified under major heads other than '2408'. A similar exercise was done for power, petroleum and new and renewable energy subsidies of the above-mentioned 18 states.

3.3 States' Actual Subsidy

Following this exercise, the actual subsidy expenditure of 18 states on food, power, and fuel is calculated. Figure 20 shows the difference between the states' reported expenditure on the three items compared with their actual expenditure. It can be seen that the actual food subsidy of the states is much higher than the reported food subsidy. In FY23, food subsidies were reported to be cumulatively over Rs. 12,000 crore for the 18 states. However, the actual food subsidy was higher by at least Rs. 25,000 crore. This pattern is visible across the years, reflecting that wide variations exist in the calculation of food subsidy spending of states. Additionally, states have not reported spending on fuel subsidies. However, some states do spend on kerosene subsidies, resulting in the difference between actual and reported subsidies.

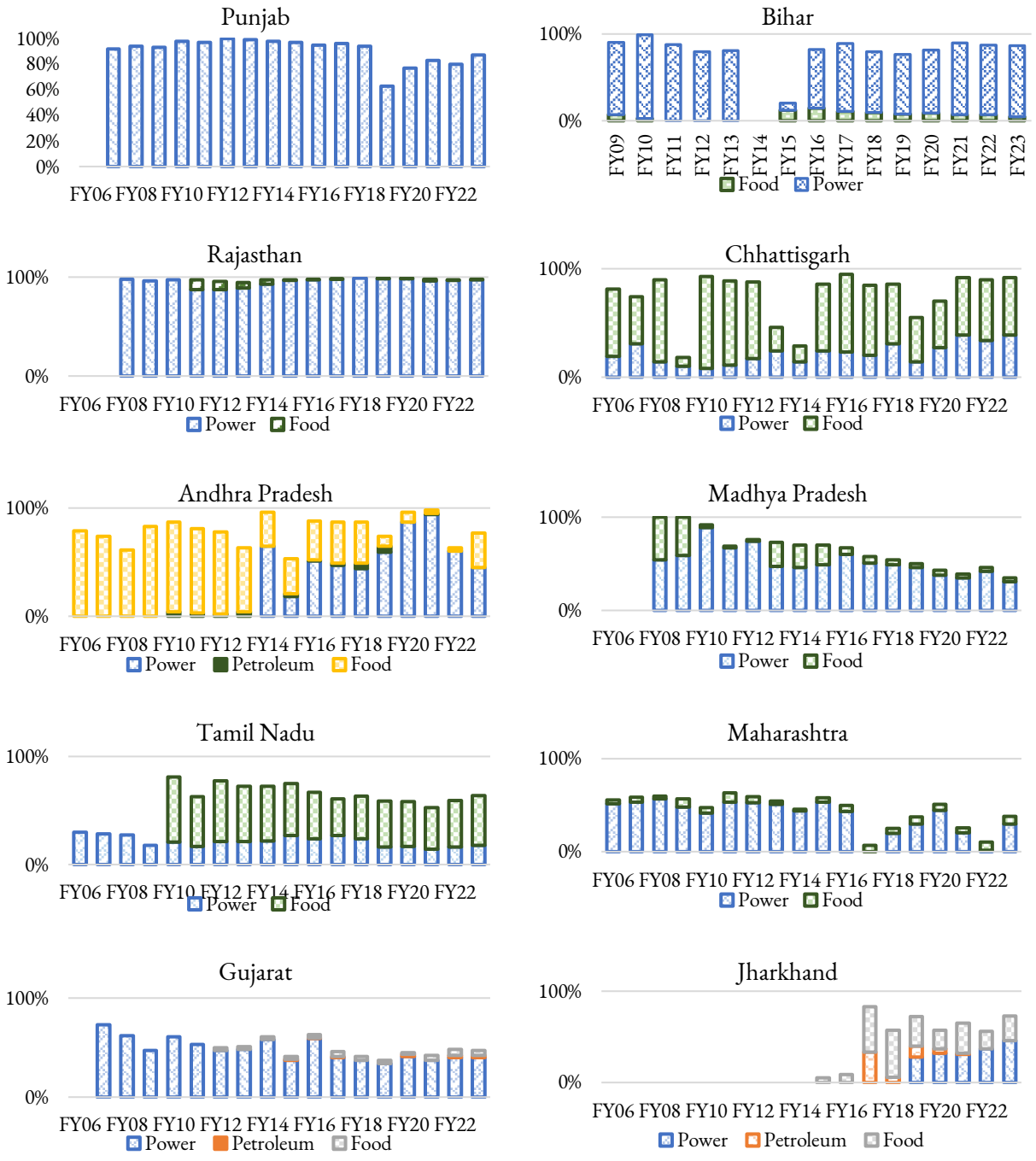
Figure 20: Key Select State Subsidies on Power, Petroleum and Food (% of Total Subsidies)



Source: State Finance Accounts, CAG

Food and power comprise the most subsidised items by states. Figure 21 shows the breakdown of subsidy expenditure of the states discussed previously.

Figure 21: Breakdown of State Subsidies (as % of Total State Subsidy)



Source: State Finance Accounts, CAG

Punjab, Bihar, Rajasthan, Chhattisgarh and Andhra Pradesh, the relatively high fiscal deficit and high subsidy spending states, all spend more than 75% of their total subsidies on just power and food.

- As much as 87% (nearly Rs. 18,000 crore) of **Punjab**'s subsidy expenditure was on power in FY23. Half of this constituted power subsidy to farmers, and the rest was on rural electrification. Punjab does not report any spending on food subsidies. However, the state does heavily support its agriculture sector through subsidies. In FY19, at least 32% of Punjab's total subsidy spending was for debt relief to farmers. Aside from the agriculture sector, the state provides subsidies to the industrial sector, and for the promotion of solar energy.
- **Bihar** allocated almost all of its power subsidy spending, comprising 83% of the total, to Bihar State Power (Holding) Company Ltd. (BSPHCL) in FY23. In FY22 and FY23, 80% of its food subsidy spending was on the doorstep delivery of food grains. In FY23, the state incurred 7% of its total subsidy expenditure on the industries sector and over 3% on agriculture. About one-third of this agriculture subsidy spending was for the promotion of organic farming.
- **Rajasthan** has historically spent more than 96% of its total subsidy expenditure on power– in FY23, it spent more than Rs. 25,000 crore on power subsidy, the highest among all 18 states. The state spends minimally on food subsidies; in FY23, it spent under Rs. 70 crore on food subsidies under the Antyodaya Families Anna Yojana. The rest was spent on agriculture, mainly micro irrigation schemes such as the Pradhan Mantri Krishi Sinchayee Yojana and PM KUSUM.
- Nearly 40% of the total spending of **Chhattisgarh** in FY23 was to subsidise power in the form of free electricity to agriculture, waiving electricity fees of domestic consumers, and subsidising single-bulb connections. More than half of the total power subsidy went to farmers in both FY22 and FY23. In FY23, Chhattisgarh spent more than half of its total subsidy on food; of this, the majority was spent on the Chief Minister's Food Assistance Scheme and as payment to the State Cooperative Marketing Federation for meeting losses in food grain procurement. Aside from the food and power subsidy, Chhattisgarh spent 6% of its total spending in FY23 on supporting farmers – just under half of which comprised an interest subsidy to farmers.
- **Andhra Pradesh**'s power subsidy, like that of Chhattisgarh, made up over 40% of the total spending in FY23. The state has historically spent heavily on power subsidies. The case of erstwhile Andhra Pradesh is noteworthy. Power subsidies were reported to be more than Rs. 6,500 crore in FY14, as opposed to zero in the previous year. However, it is noted that the state was already incurring an expenditure of Rs. 6,300 crore on power subsidies in FY13 (PTI 2013), which was not reflected in its subsidy statement. Therefore, the apparent increase in FY14 can be attributed to a change in accounting practices rather than the addition of a new

subsidy. In Andhra Pradesh, food subsidies decreased significantly until FY23. Thereafter, it surged from 3% of the state's total subsidies in FY22 to 33% in FY23.

Madhya Pradesh and Tamil Nadu are two of the relatively high fiscal deficit and low subsidy spending states – both allocate about two-thirds of their total subsidy spending on food and power.

- **Madhya Pradesh** has reduced its power subsidy since FY16, which was 60% of total state subsidies. It was brought down to 31% in FY23, of which one-third was for farmers. In addition to the power subsidy, as much as 35% of the total subsidy was provided to agriculture in FY23. Its food subsidy reached its peak in FY15 at a little over Rs. 2,000 crore. Since then, the state's food subsidy share in total subsidy spending has also consistently declined.
- **Tamil Nadu**'s power subsidy, on the other hand, has stayed a little under 20% of the total subsidy spending since FY19. Almost all of its power subsidy in FY23 was for domestic consumers. The state spent close to half of its total subsidies in FY23 on food, amounting to more than Rs. 13,000 crore. It paid significant production incentive subsidies to paddy and sugarcane farmers.

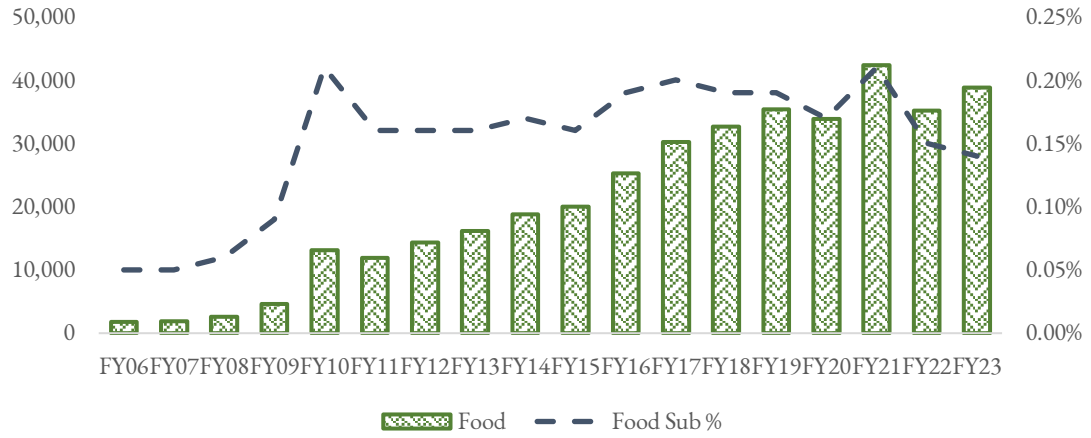
Of the relatively low fiscal deficit and low subsidy spending states, Maharashtra, Gujarat and Jharkhand have spent just around half of their total spending on food and power. A large portion of their total subsidy spending has been directed towards loan waivers for farmers, to the industrial sector and for rural development.

- **Maharashtra**'s power subsidy majorly targets three categories of consumers – industries, agriculture, and textile and power looms. In FY23, the state spent Rs. 13,000 crore, 30% of its total subsidies, on power. The state's food subsidy expenditure has risen consistently, and was close to Rs. 4,000 crore in FY23, 9% of the total state subsidy spending– a small portion of which was for the Rs. 10 Thali Scheme. Notably, Maharashtra spends substantively on relieving the debt burden of farmers through interest subsidy under the Pradhan Mantri Crop Insurance Scheme and the Mahatma Jyotirao Shetkari Karj Mukti Yojana. These two schemes alone comprised over 18% of total subsidy spending in FY23. Additionally, 14% of its total subsidy spending went towards incentive schemes for the industrial sector in FY23.
- Power subsidies have steadily declined as a share of **Gujarat**'s total subsidy spending– they accounted for 40% in FY23. The share of food subsidies is low and is recorded under 'food security' without any other details. Like Maharashtra, Gujarat has also provided interest relief schemes for farmers.
- In **Jharkhand**, power subsidies were recorded in its subsidy statement only in FY19 onwards. The state spent about 46% of its total subsidy on power in FY23. Of its food subsidy spending

in FY23, at least 17% was on the 'food grain distribution scheme for poor persons not covered under NFSA' and 45% on the Priority Household Scheme. Additionally, Jharkhand spent over Rs. 300 crore on loan waiver schemes for farmers and about Rs. 260 crore on 'distribution of dhoti sarees to Below-Poverty-Line families' in FY23.

3.3.1 Food

Figure 22: States' Subsidy Spending on Food (total of 18 states)



Source: State Finance Accounts, CAG; Union Budgets, GoI

In addition to the over Rs. 270,000 crores spent by the Union on food subsidy in FY23, 18 major states cumulatively spent about Rs. 40,000 crore. The states' numbers are large enough to bring them to the forefront of the discourse when evaluating the efficiency of food subsidies. Figure 22 shows the increasing trend of states' actual food subsidy spending. It peaked in FY21, as states initiated schemes to relieve the cost of living pressures during the pandemic. Combined state food subsidy spending stood at 0.21% of GDP.

- The four states where a significant portion of food subsidy expenditure is concentrated are West Bengal, Tamil Nadu, Maharashtra, and Chhattisgarh. **West Bengal**, through its Food and Civil Supplies Department, consistently allocates funds to two key schemes: rice subsidy for above and below-poverty-line families, and transport subsidy for distributing rice and wheat. In FY21, West Bengal alone accounted for over Rs. 12,000 crore of the Rs. 42,000 crore total food subsidy across all states.
- **Kerala** allocated nearly 85% of its total subsidies to food in FY23, primarily focusing on paddy procurement through the Kerala State Civil Supplies Corporation (KSCSC), ration subsidies, and grants to KSCSC. The grant was significantly increased in FY21, raising Kerala's food subsidy share to 90% of its total subsidy expenditure.

- In FY23, of the total state subsidies of **Odisha**, one-fourth were spent on the Annapurna Scheme to provide food security to senior citizens. Around half of this was reserved for special component plans for scheduled castes and tribal areas. In FY21 and FY22, food subsidy was more than 40% of the total state subsidy.
- **Telangana**'s food subsidy comprised only rice subsidy. However, it was accounted under departments like Tribal Welfare and Social Welfare, apart from the Civil Supplies Administration. Rice subsidies were halved after FY20, while power subsidy was doubled.

3.3.2 Power

State governments extend power subsides in two ways:

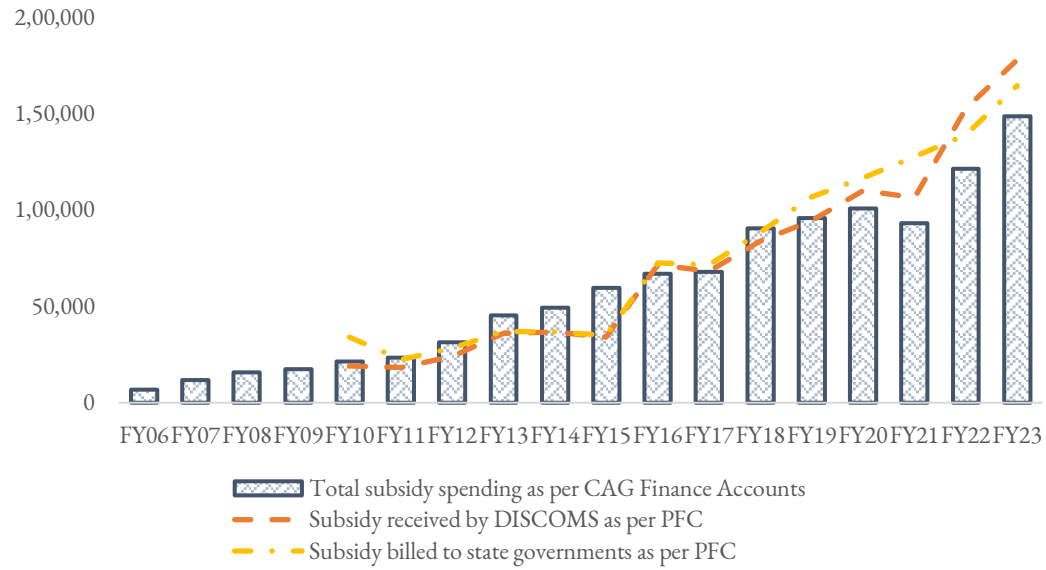
- direct subsidies, that reduce the consumer tariff of a unit of electricity, with the state government compensating distribution companies (DISCOM) for having to sell electricity below cost;
- cross-subsidies, using commercial and industrial consumers to provide subsidised power to agricultural and residential consumers.

It is important to note that subsidies provided through the under-pricing of public services, such as through cross-subsidisation of electricity, may not always be recorded as part of reported subsidy figures, despite being significant in size.

To analyse power subsidy trends, we use data from the State Finance Account Reports and the PFC. PFC in its reports on the Performance of Power Utilities presents granular data on the revenue breakdown of DISCOM.

Figure 23 reflects the increasing trend in power subsidy expenditure of the 18 states since FY06. The graph also shows the two trendlines for 'subsidy billed' and 'subsidy received', as per PFC reports. Subsidy billed is the amount that state governments must reimburse to DISCOMs for selling electricity at lower than the regulatory tariff. Subsidy received or realised is the compensatory payment which DISCOMs actually receive from the State. When the subsidy received is a fraction of the subsidy billed, the difference between the two is termed unrealised or unpaid subsidy and reflects deferred payments (Devaguptapu & Tongia 2020). The gap between the orange and yellow trendlines in the graph below reflects unpaid subsidies.

Figure 23: States' Power subsidy of 18 states as per Finance Accounts and PFC (in Rs. crore)



Source: State Finance Accounts, CAG; PFC

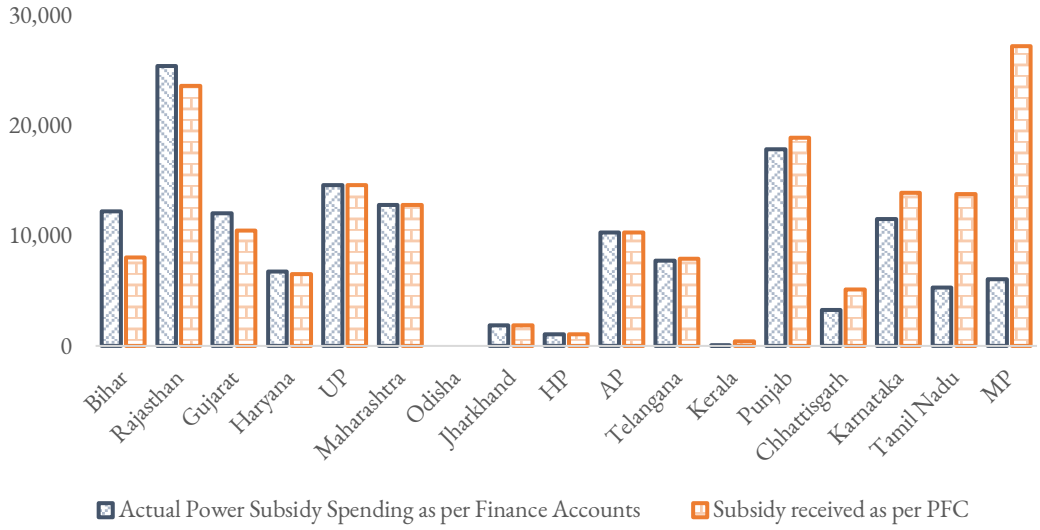
In FY23, the subsidy received by DISCOMs (of the 18 states) was nearly Rs. 30,000 crore more than what was accounted in the CAG State Finance Accounts. It is unclear where the remaining subsidy is being accounted for in states' finance accounts. Figure 24 suggests that in FY23, subsidy received exceeded actual subsidy spending, primarily in 5 of the 18 states – Madhya Pradesh, Tamil Nadu, Karnataka, Chhattisgarh, and Punjab (in ascending order). The difference between the two measures of subsidy is likely reflective of data gaps, such that the definition and accounting methodology adopted by PFC and CAG concerning subsidy received and paid varies and cannot be ascertained.

Whether this inconsistency is a one-off incident or a recurrent accounting practice needs to be further examined. If recurrent, this inconsistency merits a look at where state finance accounts record this additional subsidy expenditure, if not under their subsidy statement. Among the inconsistencies:

- Tamil Nadu, in its CAG subsidy statement, has consistently accounted for power subsidy expenses at a level far below what PFC has listed as the subsidy received by DISCOMs (Figure A3). A fraction of the subsidy received must be accounted for under other unclear accounting heads, kept out of the subsidy statement, or perhaps financed by EBRs.
- Madhya Pradesh does not depict any consistent pattern in under or over-estimation of power subsidy in its finance accounts (Figure A3).
- As per PFC reports, Madhya Pradesh had the highest level of absolute power subsidy released in FY23 among the 18 states. However, as per the Finance Accounts, Rajasthan spent the highest on power subsidy expenditure in that year.

Such inconsistencies in the classification of subsidy spending, therefore, restrict us from accurately assessing the power subsidy burden of state governments.

Figure 24: States' Actual Power Subsidy Spending and Subsidy Received & Booked in FY23 (in Rs. crore)



Source: State Finance Accounts, CAG; PFC

3.3.3 New and Renewable Energy

Overall spending on new and renewable energy by the major states stood at a little over Rs. 2,800 crore in FY23. Of this, 42% was reported as capital expenditure, with the bulk of this being done by Chhattisgarh and Gujarat. Most other states' spending is in the form of revenue expenditure, of which one-fourth is in the form of subsidies.

Only a few states record subsidy spending under new and renewable energy (major head 2810) in their finance accounts – Maharashtra, Tamil Nadu, Haryana, Gujarat, and Madhya Pradesh were the only states which accounted for any expenditure at all under this head between FY06-23. Their combined expenditure in FY23 by these states was Rs. 400 crore, of which Haryana alone spent more than Rs. 300 crore. These include schemes for the installation of solar water pumping systems, grid-connected rooftop solar power plants, the promotion of clean energy for urban industrial and commercial applications, and research and development. Besides, Haryana and Maharashtra are the only states which have given subsidies under this head every year during the mentioned period.

4. Way Forward

Robust data are imperative to consistently evaluate the extent and quality of subsidy spending, as part of the overall strategy for all financial data related to government expenditure. Information gaps which render data incomplete and incomparable at the national and sub-national levels hinder the the ability to monitor progress and patterns, course-correct, and fully assess the impact of policies.

Undoubtedly, when such expenditure commands a significant portion of public spending, exposes the exchequer to international price volatility, and is tied to electoral promises, quality fiscal data becomes a public good. Consistent and well-defined accounting standards and frameworks, timely and reliable reporting, automatic mechanisms for deviation correction, and sanctions for non-compliance, across the national and sub-national governments, are crucial to build a stronger PFM system for India (Singh 2023). Unless this is done, it will be difficult to build the comprehensive fiscal data repository that India needs.

Transparent and disaggregated data on subsidies are crucial for understanding the size, design, and impact of a State's principal instrument to achieve equity and welfare. Especially with regard to the subsidy spending of the previous years, it is imperative to understand the full extent of subsidy expenditure which has occurred[23]. This paper has highlighted the many ways in which subsidies have been financed by the Union and state governments, over and above what was reported in budgets, in the spirit of bringing transparency to India's subsidy spending in recent decades.

Nevertheless, while there have been improvements in the transparency of subsidy spending by the central and state governments in India, significant gaps remain. Uniform reporting standards across states, timely data, and a comprehensive view of both on- and off-budget subsidies would improve the ability of citizens and policymakers to assess subsidy spending effectively. Presently, expenditure data are scattered across different levels of government and, within them, across various departments and agencies, making it difficult to compile and analyse fully.

Although the CAG has consistently tried to identify these gaps in its audit reports, it is crucial to standardise definitions and data formats and integrate information from various sources in reported data. Unless this is done, data gaps will persist in the absence of a uniform reporting framework. The data gaps discussed in this paper are summarised in Table 2.

Table 2: Summarising Data Gaps in Subsidy Reporting

Data Gap	Description	Example
In the absence of a clear definition of subsidy, what should be included in the calculation of subsidy can create many data gaps.		
Incompleteness	It cannot be ascertained from the budget how much of the subsidy spending is the payment of carry-forward liability and accrues to past years.	FY21's fertiliser subsidy (revised estimates) made provisions for clearing the carry-forward liability accumulated. NSSF loans to FCI were taken on budget in FY21, and were reflected in the cumulative reported food subsidy.
	Other modes of financing subsidies, such as EBRs and Special Securities are not reflected in Statement 7 (Union Budget) or Appendix II (state finance accounts). All subsidy-equivalent schemes, as well as other costs, are also not included.	FCI borrows from many other sources which are not reflected in the reported subsidy. SBAs advanced to fertiliser companies comprise EBRs -- however, such information has not been provided for audit. States also leverage EBRs for financing subsidies. PLI schemes and freebies are not enlisted as subsidy spending in the budget. Expenditures such as storage and movement for food grains are not included in food subsidies. Tax incentives are not uniformly considered subsidy expenditure.
Inconsistency	Components for calculating subsidy expenditure change abruptly, without adequate explanation. This required us to add each component separately (given in Demand for Grants) to match the resulting total with that given in Statement 7.	'Under-recoveries to OMCs' was included in the calculation of fuel subsidy between FY10-FY15, but not in FY22. Before FY10, 'under-recoveries' were matched with equal 'deposits by the OMCs'. Thus, what comprises fuel subsidy has changed every few years.
	A change in spending levels under a particular head could merely be due to a change in accounting heads.	Until 2010, all fertiliser subsidies were accounted under "Agriculture and Allied Activities". In 2010, a part of these subsidies came to be accounted under "Industry and Minerals". Power subsidy was reported to be zero in Andhra Pradesh's finance accounts until 2014. However, other indicators suggest that power subsidies were being given by the state. Subsequently, power subsidies became apparent in the finance accounts, suggesting a change in accounting practice had taken place.
Incomparability	Subsidy statements of state accounts record subsidy spending under a combination of heads including departments responsible, head of account, scheme name, state fund or central assistance and revenue or capital account. However, each state typically uses a different set of heads and formats.	Among states, Madhya Pradesh does not give scheme names under the description, but the title of the major head instead.

	Major heads are, in some cases, not presented together, are not in ascending/descending order, and are not totalled consistently.	Among states, Gujarat's entries under major heads are scattered, and no totals for each major head are provided.
	The categorisation of subsidies under major heads is not uniform across states.	While some states categorise the cooking oil subsidy under food subsidy, others consider it a subsidy for women's development.
	Data in finance accounts cannot be easily compared with and differs from other data sets.	There are wide variations in reported subsidy spending in the finance accounts and subsidy received as per PFC. In some states, these variations appear consistently over the years.
Data Unavailability	Our data source for principal raised and ongoing bonds – Assets and Liability Statements (Part B) of the Receipts Budget – is only available post-FY08. However, since the Union was reporting interest paid on some of these bonds after FY03, it is most likely bonds were being raised before FY08.	
	Data on interest payments post-FY23 are unavailable, as the latest Finance Accounts publication of the CGA are not yet available.	
	Implicit subsidies are not accounted in budgets and finance statements.	Odisha provides its implicit subsidy spending in its finance accounts but does not give its breakdown.

An essential starting point is to establish a comprehensive definition of subsidies, including implicit ones, to understand their scope, ensure their full measurement, and differentiate them from other welfare-related spending. As Gupta and James (2023) have noted in the context of off-budget borrowings—which are one of the opaque ways in which subsidies are financed—data gaps tend to reflect legal gaps, and persist in the absence of a uniform reporting framework. In this light, a comprehensive definition of subsidies could be statutorily established by way of an overarching PFM law that applies uniformly to the Union as well as the states (James, Patel, and Singh 2022).

All expenses that fit within this definition should be recorded in the statement of subsidies. This would require expanding the scope of the statement, as was done when NSSF loans to FCI were merged with existing subsidies in FY2124. Similar steps with regard to the special securities issued in lieu of cash subsidies, other current borrowing liabilities of the government, and implicit subsidies, need to be taken to give a complete assessment of India's subsidy spending.

These steps apply equally to the sub-national level, where implicit subsidies should be defined and reported to bring uniformity to the Union and state accounting standards. Overall, the classification and calculation of subsidies must be done uniformly and transparently across all levels of government to ensure comparability across the years.

In a similar vein, to better understand the direction and use of government subsidy spending, the GoI's categorisation of major expenditure heads needs to be transformed. Presently, the categorisation is outdated and does not reflect outcome-based policy priorities25. For example, presently, food subsidy comprises the largest Union expenditure on the agriculture sector—but the inclusion and

classification of consumer-based food subsidies under "agriculture and allied activities" is not relevant anymore, as consumers of subsidised food are not necessarily farmers26. In this regard, food subsidies need to be excluded from the accounting of public expenditure on agriculture development, as they inflate actual government expenditure towards the sector.

Convincing Indian states to report uniform spending requires a systematic approach that involves engaging with the state governments and creating awareness about the benefits of standardised reporting across all levels of government. There is also an increasing integration of technology in PFM systems with the adoption of the Financial Management Information Systems (FIMS). These can be used to improve reporting, assist in spending decisions and budget planning, and achieve greater efficiency in expenditure. For example, digital infrastructure can already help in allocating fertilisers to farmers based on the size of their land. Collaboration, stakeholder engagement, and continuous advocacy will play a vital role in driving the adoption of standardised reporting practices.

The shortcomings of fiscal data impede the accurate assessment of public resources. Better data and improved evidence on subsidies in real-time will encourage citizen oversight and allow governments to build the case for phasing out unproductive subsidies or for improved targeting. A constrained fiscal space limits spending towards human capital and climate goals. With more transparent reporting, subsidy expenditure can be better aligned with welfare and sustainable development policies, and allow India to maximise the private as well as social benefits of public spending.

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Annexure

Note 1: Data Sources

Our analysis in this paper has utilised data from a variety of sources. This paper began with a careful compilation of data on the Union's and States' subsidy expenditure, followed by a precautionary triangulation by comparing it with what was available in the news media, and academic research.

Data on the Union's subsidy expenses has been compiled from Statement 7 (Statement on Subsidies and subsidy-related schemes) of Part I of the Expenditure Profile of the Union Budget. Wherever disaggregated data was needed, especially, concerning fuel and fertiliser subsidy, we referred to ministry-wise budget estimates of the Union budget. All budget data is presented as follows– 'actuals' for FY04-FY23, revised estimates (RE) for FY01-FY03 and FY24, and budget estimates for the current fiscal year, FY25.

Data on principal payments, principal liability raised and bond maturation dates of special securities has been extracted from Assets and Liability Statements (Part B) of the Receipts Budget of the Union budget and on interest payments on special securities (2049-60) from GoI's Finance Accounts available on Controller General of Account's (CGA) website. EBRs, including NSSF loans, are presented under Part IV of the budget's Expenditure profile; and data on PLIs has been obtained from Statement 4B on Central Sector Schemes. Information on deferred liabilities has been inferred from ministry-wise budget estimates and the Comptroller and Auditor General of India's (CAG) Audit Reports.

Subsidy spending data for the states has been extracted and compiled from Appendix II: Comparative Expenditure on Subsidy (Part II, Volume II) of CAG's State Finance Accounts, available for FY06-FY23 for all states. To understand power subsidy spending, we also referred to the Power Finance Commission's Report on the Performance of Power Utilities.

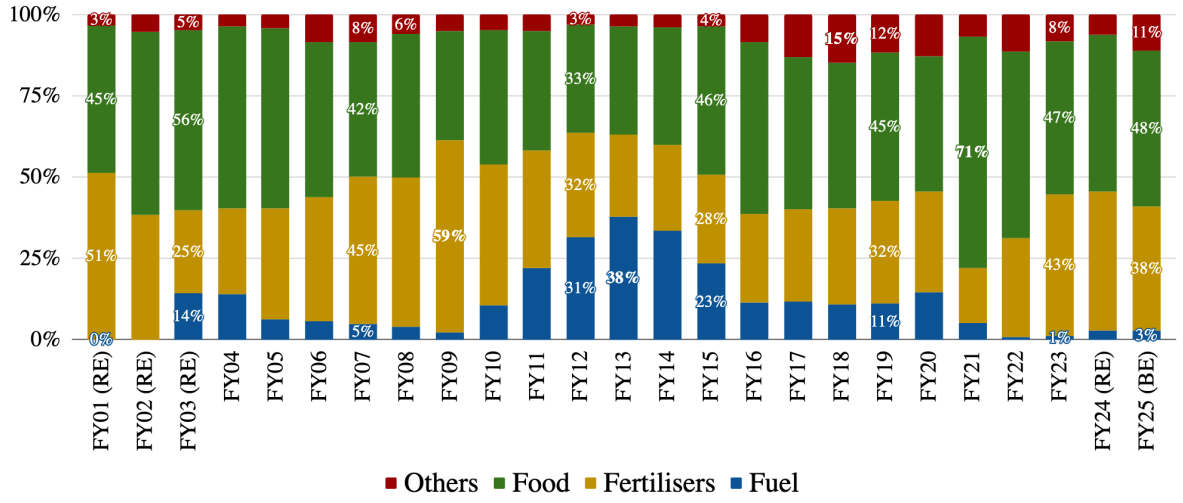
Note 2: Format of Subsidy Statements

The format of the subsidy statement contains the following columns:

1. Ministry/Department: The name of the ministry and the department administering the subsidy.
2. Head of Account: The designated functional head or sector to which the subsidy pertains. For example, major head 2408 represents the Revenue Expenditure Head for Food, Storage, and Warehousing. This is further divided into sub-major heads and minor heads.
3. Description of Subsidy: A brief description of the specific subsidy (e.g., electricity subsidy to farmers, food subsidies, subsidies on fertilisers) or the scheme name.

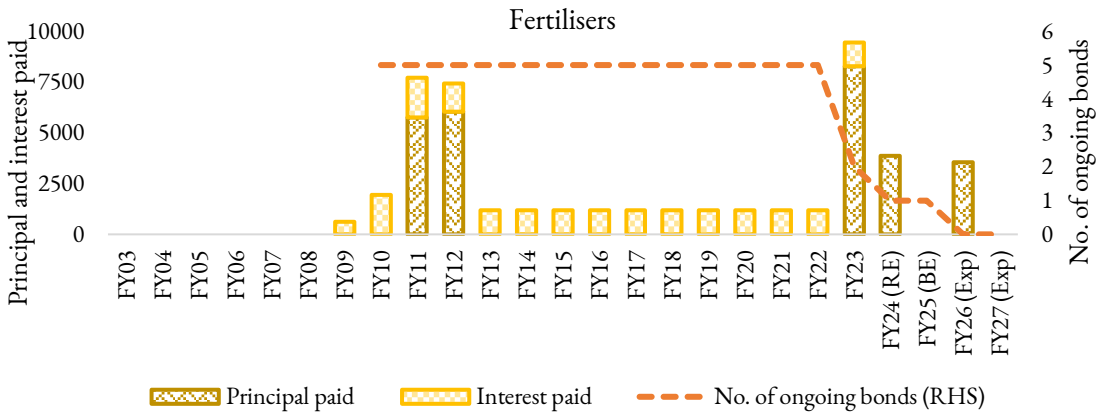
4. Expenditure: The total expenditure on the subsidy in the current and the previous financial year.
5. State Fund Expenditure/ Central Assistance: It is noted whether the expenditure is incurred from the state's own fund or using central assistance under centrally sponsored or central sector schemes.

Figure A1: Composition of Union's Reported Subsidy Expenditure

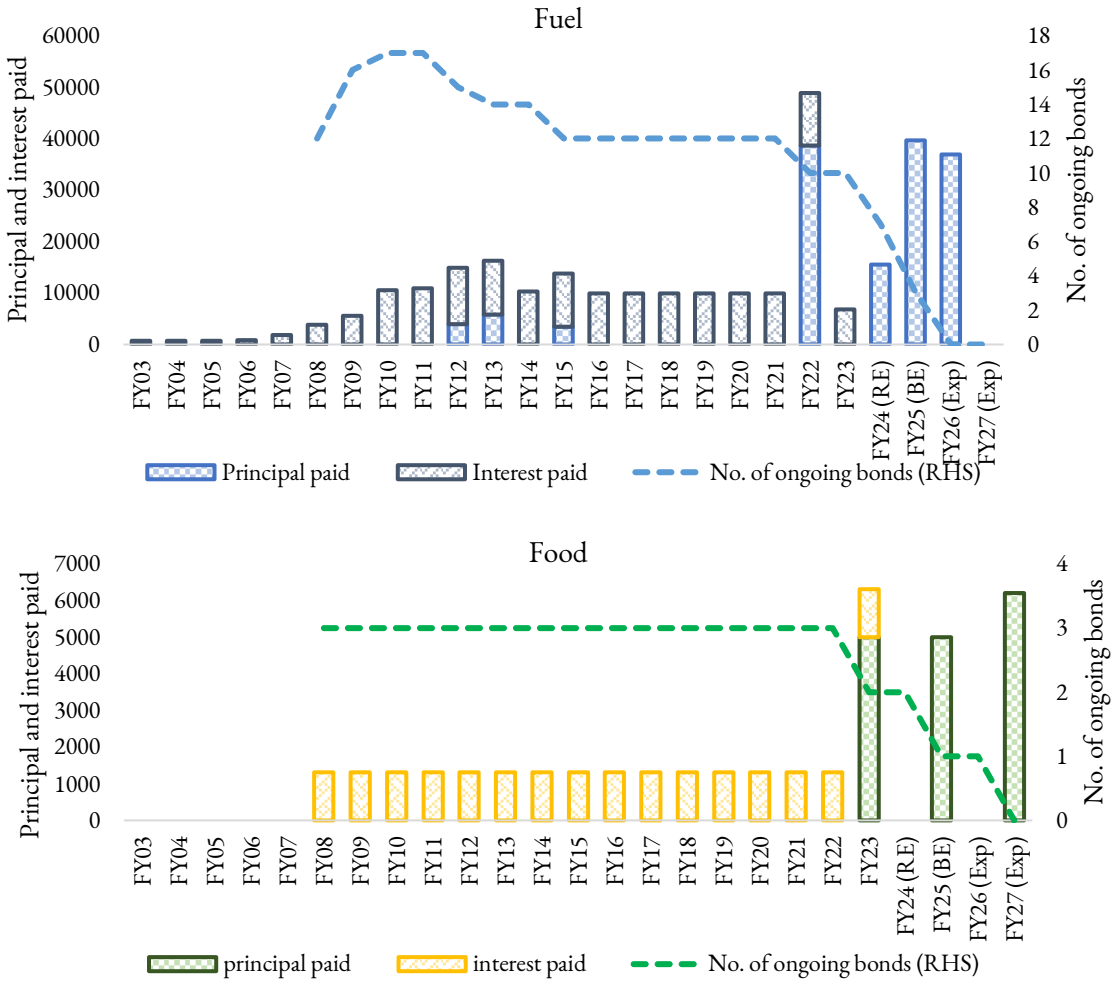


Source: Union Budgets, GoI

Figure A2: Principal Paid on Securities Issued in Lieu of Cash Subsidy & Number of Ongoing Bonds

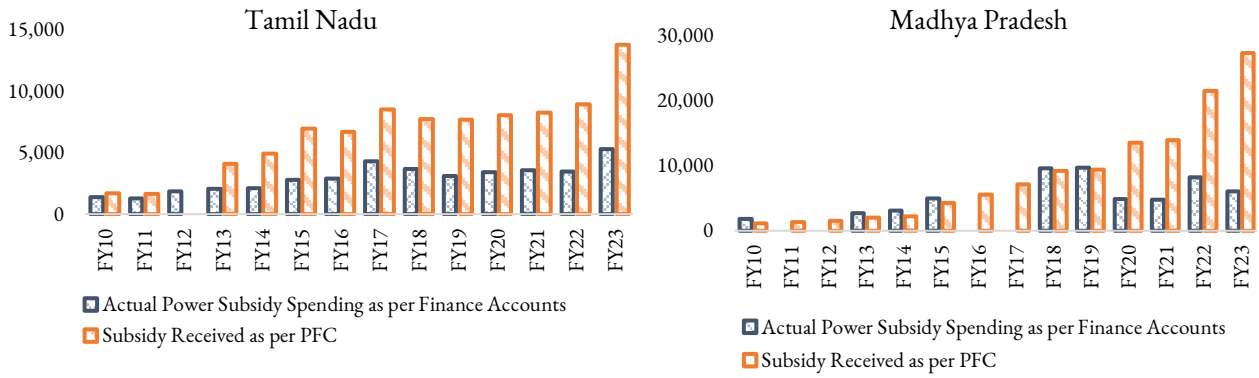


Note: In FY11 and FY12, GoI repurchased part of the bonds issued to fertiliser companies due to the liquidity constraints faced by the companies (Lok Sabha, 2011)– this is marked in brown in the graph.



Source: Union Budgets, GoI

Figure A3: Actual Power Subsidy Spending and Subsidy Received (in Rs crore)



Source: State Finance Accounts, CAG; PFC

Table A1: Union's Reported and Actual Subsidy (in Rs crore)

	Fuel		Fertiliser		Food		Others		Total	
	Reported	Actual	Reported	Actual	Reported	Actual	Reported	Actual	Reported	Actual
FY01 (RE)	0	0	13,800	13,800	12,125	12,125	913	913	26,838	26,838
FY02 (RE)	0	0	11,944	11,944	17,612	17,612	1,654	1,654	31,210	31,210
FY03 (RE)	6,265	6,932	11,009	11,009	24,200	24,200	2,059	2,059	43,533	44,200
FY04	6,292	6,958	11,847	11,847	25,160	25,160	1,669	1,669	44,968	45,634
FY05	2,956	3,640	15,879	15,879	25,797	25,797	1,975	1,975	46,608	47,292
FY06	2,683	3,528	18,460	18,460	23,077	23,077	4,150	4,150	48,370	49,215
FY07	2,699	4,600	26,223	26,223	24,014	24,014	4,894	4,894	57,829	59,730
FY08	2,820	64,611	32,490	39,990	31,328	48,847	4,288	4,288	70,926	157,737
FY09	2,852	84,324	76,602	97,212	43,751	45,070	6,502	6,502	129,708	233,108
FY10	14,951	35,793	61,264	63,221	58,443	59,762	6,692	6,692	141,350	165,468
FY11	38,371	49,329	62,301	64,258	63,844	65,163	8,903	8,903	173,420	187,653
FY12	68,484	79,442	70,013	71,399	72,822	74,141	6,622	6,622	217,941	231,604
FY13	96,880	107,338	65,613	66,786	85,000	86,319	9,586	9,586	257,079	270,029
FY14	85,378	95,634	67,339	68,512	92,000	93,319	9,915	9,915	254,632	267,381
FY15	60,269	70,525	71,076	72,249	117,671	118,990	9,242	9,242	258,258	271,006
FY16	29,999	39,989	72,415	73,589	139,401	140,720	22,290	22,290	264,105	276,588
FY17	27,539	37,529	66,313	67,487	110,173	181,492	30,784	30,784	234,809	317,291
FY18	24,460	34,450	66,468	67,641	100,282	166,601	33,245	33,245	224,455	301,938
FY19	24,837	34,827	70,605	71,778	101,327	199,646	26,185	26,185	222,954	332,437
FY20	38,529	48,519	81,124	82,298	108,688	220,008	33,963	33,963	262,304	384,787
FY21	38,455	48,445	127,922	129,095	541,330	200,649	50,459	50,459	758,166	428,648
FY22	3,423	13,592	153,758	154,932	288,969	290,288	57,758	57,768	503,907	516,579
FY23	6,817	35,666	251,339	252,513	272,802	274,122	46,957	50,614	577,916	612,914
FY24 (RE)	12,240	12,240	188,894	188,894	212,332	212,332	27,070	35,077	440,536	448,543
FY25 (BE)	11,925	11,925	164,000	164,000	205,250	268,328	47,248	61,431	428,423	505,684

Source: Union Budgets, GoI; CAG; FCI

Table A2: States' Subsidy Expenditure as a % of GSDP

	FY06	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23
Andhra Pradesh	0.5	0.5	0.7	1.2	1.0	0.9	0.8	1.0	2.2	0.3	1.1	0.9	0.9	0.3	0.7	0.5	1.3	1.8
Arunachal Pradesh	0.0	0.1	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.5	0.1	0.0	0.0
Assam	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.0	0.0	0.1	0.2	0.4	0.3	0.6	0.5	0.0
Bihar	0.0	0.0	0.0	0.6	0.6	0.6	1.1	1.5	0.5	1.4	2.4	2.1	1.1	1.6	1.2	1.4	1.6	2.0
Chhattisgarh	0.0	0.5	1.0	1.4	2.0	1.5	1.2	1.0	1.5	1.7	3.3	1.6	1.8	2.5	3.3	2.1	1.6	1.8
Gujarat	1.1	1.0	0.9	1.1	1.1	1.0	0.9	0.9	0.8	1.0	0.9	1.0	1.0	1.2	1.1	1.4	1.2	1.2
Haryana	0.0	3.0	2.0	1.8	1.4	1.3	1.3	1.6	1.4	1.3	1.4	1.4	1.3	1.2	1.1	1.1	1.1	1.0
Himachal Pradesh	0.5	1.1	1.0	0.9	0.8	0.8	0.6	0.7	0.5	0.8	1.2	0.6	0.7	0.9	0.7	0.8	0.7	1.0
Jharkhand	0.0	0.0	0.0	0.0	0.0	0.1	0.2	0.2	0.1	0.1	0.3	0.8	0.5	0.7	1.4	1.1	1.6	1.0
Karnataka	1.9	1.9	2.0	1.1	1.2	1.5	1.2	1.5	1.6	1.2	1.3	1.2	1.1	1.0	1.1	1.1	1.4	1.0
Kerala	0.0	0.0	0.1	0.2	0.2	0.2	0.3	0.3	0.3	0.2	0.2	0.3	0.2	0.2	0.2	0.9	0.4	0.2
Madhya Pradesh	0.0	0.0	0.1	0.1	0.9	0.9	0.8	1.5	1.5	2.1	2.2	2.5	2.7	2.6	1.4	1.4	1.8	1.6
Maharashtra	0.6	0.7	0.7	0.6	0.9	0.5	0.8	0.6	0.7	1.1	0.9	1.0	1.4	1.1	1.1	1.6	0.9	NA
Manipur	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.9	1.0	0.7	0.5	0.4	0.4	0.4	0.3	NA
Meghalaya	8.1	0.4	0.4	0.2	0.2	0.4	0.1	0.4	0.3	0.5	0.4	0.2	0.2	0.2	0.1	0.1	0.1	0.2
Mizoram	0.0	0.0	0.2	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.0	0.3	NA
Nagaland	0.0	0.0	0.0	0.1	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.3
Odisha	0.1	0.2	0.1	0.5	0.6	0.7	0.8	0.8	0.7	0.7	0.8	0.6	0.6	0.6	0.6	0.8	0.7	0.5
Punjab	1.5	1.2	1.3	1.6	1.5	1.5	1.2	1.7	1.5	1.3	1.3	1.4	1.5	2.6	1.9	1.8	2.4	3.1
Rajasthan	0.0	0.0	1.6	0.6	0.6	0.7	0.7	1.1	1.3	1.4	1.5	2.3	2.8	2.4	1.9	1.5	2.0	1.9
Sikkim	0.5	0.5	0.3	0.3	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Tamil Nadu	1.3	1.4	1.2	1.6	1.4	1.3	1.2	1.1	1.0	1.0	1.1	1.2	1.0	1.2	1.2	1.4	1.1	1.3
Telangana	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.7	0.9	0.9	0.8	0.7	0.7	1.0	0.9	0.7
Tripura	0.0	0.0	0.1	0.0	0.0	6.2	6.6	0.2	0.4	0.5	0.4	0.3	0.3	0.3	0.1	0.3	0.2	0.2
Uttar Pradesh	0.0	0.0	0.0	0.9	0.8	0.7	0.8	0.7	0.7	0.8	0.7	0.6	0.6	0.9	0.8	0.7	1.0	0.9
Uttarakhand	0.0	0.0	0.0	0.1	0.1	0.1	0.2	0.1	0.0	0.1	0.1	0.1	0.1	0.1	0.0	0.1	0.1	0.1
West Bengal	0.0	0.0	0.0	0.4	0.0	0.5	0.5	0.7	0.5	0.3	0.6	1.1	1.2	1.2	0.8	1.1	0.9	NA

Source: State Finance Accounts, CAG; RBI

Notes

[1] All revenue, loans, and repayment of loans are credited to the Consolidated Fund of India of GoI. All expenditure is debited from the Fund. However, governments have often resorted to extra-budgetary borrowings to fund expenditure.

[2] For example, the debt-to-GDP ratio for Andhra Pradesh had gone up by 9% in FY21 after the inclusion of the state's off-budget borrowings (Gupta and James 2023).

[3] The total off-budget borrowings for FY24 were Rs 35,705 crore (DoE, n.d.).

[4] Houthakker (1972) famously quipped "the concept of a subsidy is just too elusive to even attempt to define" (in Chakraborty et al. 2003, 2; in Schwartz, Hugounenq, and Clements 1995). The 1997 Discussion Paper on Government Subsidies in India by the Ministry of Finance (Srivastava and Amar Nath 2001) defines budgetary subsidies as "unrecovered costs in the public provision of private goods" (Chakraborty et al. 2003).

[5] FCI had been the biggest recipient of loans from NSSF until FY21. These loans were meant to supplement food subsidy spending when budget allocations were insufficient to meet the demand for subsidised food (Gupta & James 2023).

[6] In the past 25 years, food subsidies have taken up a considerable share (47%) of total subsidy expenditure, followed by fertiliser subsidies (35%) and petroleum subsidies (11%).

[7] Between FY10-FY15, fuel subsidies included Post-APM subsidies and other expenditures and compensation to OMCs for under-recoveries. In FY16, the formula changed to total LPG subsidy plus kerosene subsidy.

[8] Compensatory payments to OMCs for selling fuel to domestic consumers at subsidised rates, even when their supply prices skyrocketed and breached the estimated supply costs at the time of GoI's budget-setting, are termed as 'under-recoveries'.

[9] The Public Account of India credits any money received by the Government, where GoI acts as a trustee or banker. This includes Advances, Deposits, Reserve Funds, Remittances and Suspense heads, and Small Savings and Provident Funds. Unlike the Consolidated Fund, the withdrawals of moneys Public Account is not subject to parliamentary approval.

[10] FCI is also entitled to authorised working capital from the government, which was increased from Rs 10,000 crore to Rs 21,000 crore in FY24 (PIB 2024). It is aimed at reducing FCI's reliance on cash credits and short-term loans. This will help in freeing up the credit to other sectors from a consortium of banks (Kumar and Meena 2024).

[11] This implies that the price at which the bonds are issued equals the principal amount which will be repaid at the end of maturity.

[12] Data on interest payments post FY23 is unavailable, as the latest Finance Accounts publication of the CGA is for 2022-23.

[13] Under National Food Security Act (NFSA) 2013, Antyodya Anna Yojana (AAY) beneficiaries are entitled to 35 kg of food grains per household per month, and the Priority Households (PHH) beneficiaries to 5 kg per person per month free of cost. Additionally, under PMGKAY, additional 5 kg grains per beneficiary per month are also provided.

[14] Assistance to State Agencies for intra-state movement of foodgrains, integrated management of PDS, and assisting sugar mills for handling and upgradation costs on the export of sugar are some of the schemes.

[15] Urea fertilisers are sold at a statutorily notified uniform MRP of Rs 242 per 45 kg bag pan-India.

[16] NBS establishes a fixed per-tonne subsidy amount for P&K fertilisers which is revised annually, as suggested by the GoI based on factors such as global price changes, inventory levels, and exchange rates.
[17] LPG subsidies fall under Pratyaksh Hanstantrit Labh (PAHAL), also known as Direct Benefit Transfer– LPG (DBT-L) and Pradhan Mantri Ujjwala Yojana (PMUY)-- a scheme for providing cooking gas connections to households.

[18] PAHAL entitles households with an annual income of less than Rs 10 lakh to a direct benefit transfer of the value of the per-unit subsidy amount into their bank accounts, with a cap of 12 LPG cylinders per year. PMUY facilitates the adoption of LPG connections to a targeted set of low-income female beneficiaries, with a Rs 1,600 subsidy per connection to cover cylinder and installation costs. At present, GoI subsidises only LPG for domestic purposes.

[19] It should be noted that the Union also incurred interest of Rs 667 crore payments in FY03, indicating that GoI had issued oil bonds before FY03. Data on interest payments is only available post FY03 in the CGA Finance Accounts.

[20] This excludes smaller and hilly states like Sikkim, Goa, Jammu, Meghalaya, etc. for ease of analysis.

[21] Rule 24(a) of the Government Accounting Rules, 1990 (CGA 1990) requires that "Within each of the Divisions and sections of the Consolidated Fund referred to in rule 23, the transactions shall be grouped into Sectors such as, "General Services", "Social Services", "Economic Services", under which specific functions or services shall be grouped. The Sectors shall be subdivided into Major Heads of Account, in some cases the Sectors are, in addition, sub-divided into sub-sectors before their division into Major Heads of Account. Each Sector in a section shall be distinguished by a letter of the Alphabet."

[22] The rule states "The detailed classification of account heads in Government Accounts and the order in which the Major and Minor heads shall appear in all account records shall be such as are prescribed by the Central Government from time to time on the advice of the Comptroller and Auditor General of India. The 'List of Major and Minor Heads of Account of Union and States contains the classification prescribed in this regard. The classification prescribed (including the code No. assigned up to the major heads and minor heads thereunder) should be strictly followed."

[23] In this context, Dr Y.V. Reddy, in 2018, famously remarked "Everywhere around the world, the future is uncertain; in India, even the past is uncertain". (Ranade 2018)

[24] An important step forward has recently been taken by the publication of Statement No 27-A in the recent budget by the Centre which lists the extra-budgetary resources used by two state-owned commercial undertakings.

[25] Pathak, Tripathi, and Kumar (2024) employ the CAG's Combined Finance and Revenue Accounts (CFRA) categorisation of expenditure including functional and minor heads, to create a suggestive categorisation for public expenditure on agriculture. As per their framework, subsidies (food and fertiliser) are one of 7 suggestive categories. The others include 1. Crops, livestock and fisheries, 2. Marketing and storage infrastructure, 3. Research and extension, 4. Cooperatives, 5. Irrigation and, 6. Risk mitigation and resilience.

[26] Gulati and Banerjee (2020) quip that "subsidising the poor (or rich) consumer is not the responsibility of the farmer".