

Role of Government Subsidies in Indian Agriculture

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Abstract

Government subsidies in agriculture play a pivotal role in supporting farmers, enhancing productivity, and ensuring food security in India. This paper examines the impact of agricultural subsidies on the Indian economy, focusing on their contribution to farmer welfare, crop production, and rural development. The study utilizes data from the latest Economic Survey of India 2024-25 and other secondary sources to analyze trends, challenges, and outcomes of subsidy policies. The findings reveal that subsidies have significantly improved input accessibility and farm incomes but also highlight inefficiencies such as misallocation and environmental degradation. The paper concludes with policy recommendations to optimize subsidy utilization and promote sustainable agricultural practices. Agricultural subsidies are a critical component of India's agricultural policy, aimed at supporting farmers, enhancing productivity, and ensuring food security. The Indian government provides subsidies for various inputs such as fertilizers, seeds, irrigation, electricity, and credit. These subsidies are designed to achieve specific objectives that contribute to the overall development of the agricultural sector and the welfare of farmers.

Keywords: Agricultural Subsidies, Economic Survey 2024-25, Farmer Welfare, Food Security, Input Subsidies, Sustainable Agriculture

1. Introduction:

Agriculture is the backbone of the Indian economy, contributing approximately 18% to the GDP and employing nearly 50% of the workforce. To support this critical sector, the Indian government has implemented various subsidy schemes aimed at reducing input costs, increasing productivity, and ensuring food security. Subsidies are provided for fertilizers, seeds, irrigation, electricity, and credit, among other inputs.

It highlights the significant role of subsidies in stabilizing farm incomes and boosting agricultural output. However, the survey also points out challenges such as fiscal burdens, misallocation of resources, and environmental concerns. This paper aims to analyze the effectiveness of agricultural subsidies in India, drawing on the latest data and policy insights from the Economic Survey.

India is one of the world's largest producers of crops such as rice, wheat, sugarcane, and cotton. The Green Revolution of the 1960s marked a significant turning point, transforming India from a food-deficient nation to a self-sufficient one. The recent rise in growth rate can be attributed to improved conditions, potentially driven by favorable weather patterns, advancements in agricultural practices, and government initiatives to enhance productivity and sustainability within the sector. However, the sector faces numerous challenges, including fragmented landholdings, low productivity, water scarcity, and the adverse effects of climate change. This paper aims to analyze the role of agriculture in the Indian economy, its challenges, and potential solutions.

Objectives:

1. To study different types of Subsidies in Indian Agriculture.
2. To study impact of subsidies on Indian Agriculture.
3. To study challenges of Agriculture subsidies.

2. Methodology:

This research adopts a descriptive and analytical approach, relying on secondary data from the Economic Survey of India 2024-25, government reports, and academic publications. Data on subsidy allocations, agricultural productivity, and farmer incomes were collected and analyzed to assess the impact of subsidies. The study also reviews existing literature to identify challenges and propose policy recommendations.

Table 1: Key Data on Agricultural Subsidies

Subsidy Category	Allocation (Rs Crore)	Impact on Farmers Income
Fertilizer Subsidy	1,20,000	Reduced cost of Fertilizers by 50%, leading to higher net income for farmers.
Irrigation Subsidy	50,000	Improved access to irrigation, increasing crop yields and income by 15-20 %
Electricity Subsidy	40,000	Reduced cost of electricity for irrigation pumps, saving farmers Rs 5,000 – Rs 10,000 annually.
Credit Subsidy	30,000	Lower interest rates on loans, saving farmers Rs 2,000- Rs5,000
Seed Subsidy	10,000	Access to high –yielding seeds, increasing productivity and income by 10-15%

Source- Economic Survey- 2024-2025

Explanation for Table 1:

1. Above table shows that, Indian government provides high amount of subsidy to Fertilizer to Indian farmer. Which is good sign to increase crop productivity of the agriculture sector.
2. But above table also shows that, Indian government provides very less subsidy to Seed. Which is responsible for agriculture productivity. If Government provides more seed subsidy to farmers then they are in the position to increase more productivity.

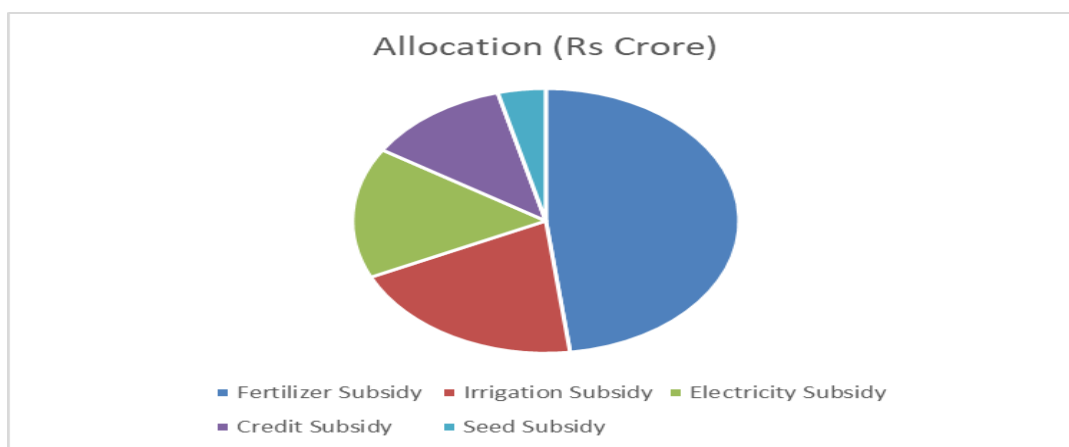


Table 2:- MSP of Major Crops (Rs per Quintal) from Year 2021-2022 to 2024-2025

Type of Crops	Year 2020-2021	Year 2021-2022	Year 2022-2023	Year 2023-2024	Year 2024-2025
Wheat	1925	1975	2015	2125	2275
Gram	4620	5100	5230	5440	5650
Masur	3325	5100	5500	6000	6700
Paddy (Grade A)	1888	1960	2183	2203	2320
Bajra	2150	2250	2350	2500	2625
Ragi	3295	3377	3578	3846	4290
Arhar (Tur Dal)	5800	6300	7550	7000	7550
Soyabean (Yellow)	3710	3950	4300	4600	4892
Cotton (Medium Staple)	5515	5726	6080	6620	7521

Source- Commission for Agricultural Costs & Prices (CACP)

Table 3:- Increase in productivity of Major Crops in last ten Years-

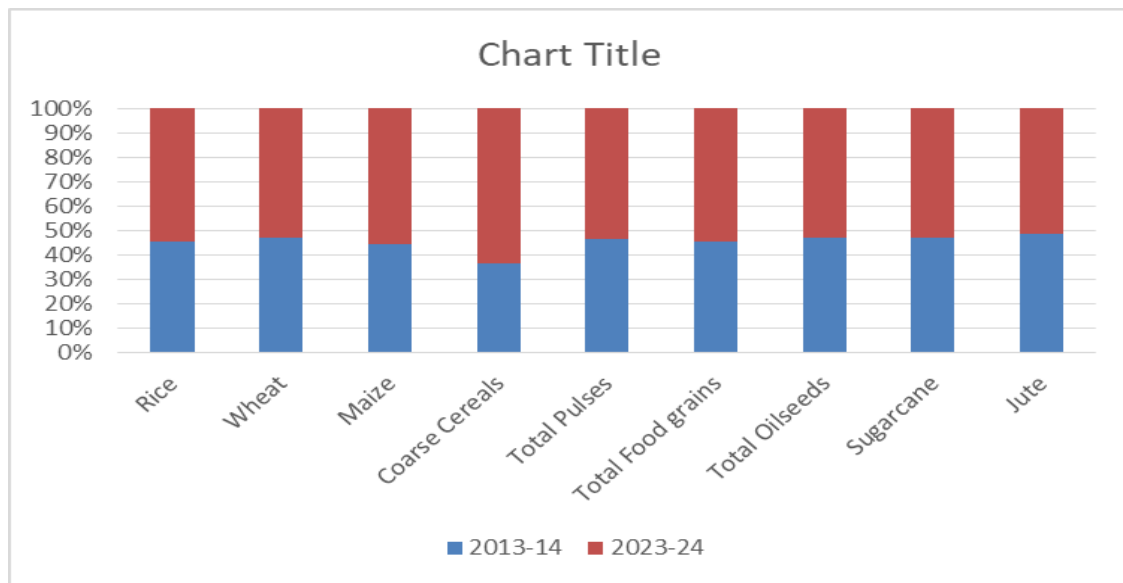
(Comparison of yield between 2013-14 and 2023-24 (Kg/ha) reflects a substantial increase in productivity.)

Crop	2013-14	2023-24	Absolute Difference (2023-24 over 2013-14)
Rice	2416	2882	466
Wheat	3145	3559	414
Maize	2676	3351	675
Coarse Cereals	1717	2945	1228
Total Pulses	763	881	118
Total Food grains	2120	2515	395
Total Oilseeds	1167	1314	147
Sugarcane	70522	78953	8431
Jute	2639	2783	144

Source: -pib.gov.in/Press Release Page.

Explanation for Table 3:-

1. All crops have shown an increase in production over the decade.
2. The absolute difference varies significantly across different crop categories, with sugarcane having the highest increase in absolute terms.
3. Coarse cereals saw the highest percentage increase, suggesting a growing focus on their cultivation.
4. Total oilseeds increased by 147 units, a modest rise compared to other crops.
5. Sugarcane had an 8,431-unit jump, the highest among all, showing strong growth in its sector.



3. Results:

3.1 Types of Agricultural Subsidies:

The Indian government provides subsidies in various forms, including:

Fertilizer Subsidies: - To make chemical fertilizers affordable for farmers.

Seed Subsidies: - For high-yielding and disease-resistant varieties.

Irrigation Subsidies: - To promote the use of micro-irrigation systems.

Credit Subsidies: - Low-interest loans for small and marginal farmers.

Power Subsidies: - Free or subsidized electricity for agricultural pumps.

Pradhan Mantri Kisan Samman Nidhi (PM KISAN): The Scheme aims at providing financial assistance to all landholding farmer families across the country, subject to certain exclusion criteria, to enable them to take care of expenses related to agriculture and allied activities as well as domestic needs. Under the Scheme, an amount of Rs. 6000/- per year is transferred in three 4-monthly installments of Rs.2000/- directly into the bank accounts of the farmers. Under the Scheme, the benefits of the scheme worth ₹ 2.81 Lakh Crore had been provided to more than 11 crore farmers.

Pradhan Mantri Fasal Bima Yojana (PMFBY): PMFBY aims to provide comprehensive crop insurance to farmers, protecting them against yield losses due to natural calamities. It highlights that additional spending under PMFBY in 2024-25 was necessitated by unforeseen climatic events, leading to higher claim settlements. This underscores the scheme's critical role in mitigating agricultural risks.

Namo Drone Didi: The Government has recently approved Central Sector Scheme for providing drones to the Women Self Help Group (SHGs) for the period from 2024-25 to 2025- 26 with an outlay of Rs. 1261 Crores. The scheme aims to provide drones to 14500 selected Women Self Help Group (SHGs) for providing rental services to farmers for agriculture purpose (application of fertilizers and pesticides).

3.2 Contribution to Farmer Welfare: Subsidies have significantly reduced input costs, enabling farmers to invest in better technologies and practices. Fertilizer subsidies alone accounted for ₹1.5 lakh cr. in 2023-24, benefiting over 120 million farmers.

3.3 Contribution to GDP: Agriculture contributes around 18-20% to India's GDP, making it one of the largest sectors in the economy. The sector's growth has a multiplier effect on other sectors, such as manufacturing and services, through forward and backward linkages. Agricultural income has increased at 5.23 per cent annually over the past decade, compared to 6.24 per cent for non-agricultural income and 5.80 per cent for the overall economy. Direct Impact on Farmers' Income The Economic Survey 2024-25 reports that government subsidies have contributed significantly to the growth of farmers' incomes. Average Annual Growth in Farmer Income: Farmer incomes have grown at an average rate of 6% annually over the past five years, partly due to subsidy support. Income from Subsidized Inputs: Subsidies on fertilizers, seeds, and irrigation have reduced the cost of production by 20-25%, enabling farmers to achieve higher net incomes.

3.4 Employment Generation: Agriculture remains the largest employer in India, providing livelihoods to nearly 50% of the workforce. It is particularly significant in rural areas, where over 70% of the population depends on agriculture for their income.

3.5 Food Security: The sector ensures food security by producing staple crops such as rice, wheat, and pulses. India is the second-largest producer of rice and wheat globally, contributing significantly to global food supplies. Crop yields in the country are considerably lower compared to those of other leading producers, underscoring the need for productivity improvements. The crop sector has experienced a modest compound annual growth rate (CAGR) of 2.1 per cent, from FY13 to FY22. This increase is also largely driven by notable increases in the production of fruits, vegetables, and pulses.

3.6 Export Earnings: Agricultural exports, including rice, spices, tea, and cotton, contribute substantially to India's foreign exchange earnings. In 2022-23, agricultural exports accounted for approximately 15% of total exports.

3.7 Reduce the Cost of Production: To make agricultural inputs more affordable for farmers, thereby reducing the cost of production and increasing net income.

3.8 Credit Subsidies: Subsidized agricultural credit has allowed farmers to access loans at lower interest rates, reducing their financial burden and increasing disposable income.

3.9 Impact on Productivity: Subsidies have contributed to increased agricultural productivity, particularly in staple crops like rice and wheat. The survey reports a 12% increase in food grain production over the past five years, partly attributed to subsidy-driven input accessibility. This sector contributes approximately 16 per cent of the country's GDP for FY24 at current prices and supports about 46.1 per cent of the population. In recent years, the agriculture sector in India has shown robust growth, averaging 5 percent annually from FY17 to FY23, demonstrating resilience despite challenges. The recent rise in growth rate can be attributed to improved conditions, potentially driven by favorable weather patterns, advancements in agricultural practices, and government initiatives to enhance

productivity and sustainability within the sector. Not only does its performance directly impact food security, but it also influences other sectors, sustaining livelihoods and supporting economic growth

3.10 Challenges:

Fiscal Burden: Subsidies account for a significant portion of the government's expenditure, straining fiscal resources.

Misallocation: Benefits often do not reach small and marginal farmers due to inefficiencies in distribution.

Environmental Degradation: Overuse of subsidized fertilizers and water has led to soil degradation and groundwater depletion.

Inequitable Distribution: Large farmers often receive a disproportionate share of subsidies.

4. Conclusion

Government subsidies have played a crucial role in supporting Indian agriculture, enhancing productivity, and ensuring food security. However, the current subsidy regime faces challenges such as fiscal strain, misallocation, and environmental concerns. To address these issues, the following policy recommendations are proposed:

1. **Targeted Subsidies:** Implement direct benefit transfers (DBT) to ensure subsidies reach small and marginal farmers.
2. **Sustainable Practices:** Promote organic farming and efficient water use through conditional subsidies.
3. **Technology Adoption:** Encourage the use of precision agriculture and digital tools to optimize input usage.
4. **Fiscal Prudence:** Rationalize subsidy allocations to reduce fiscal burdens while maintaining farmer welfare.
5. **Awareness Programs:** Educate farmers about the judicious use of subsidized inputs to prevent environmental degradation.

By adopting these measures, India can ensure that agricultural subsidies contribute to sustainable and inclusive growth in the sector.

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