# A Study of Subsidies and Transfers in India

## *Submitted to Sixteenth Finance Commission*

## Final Report

August 2025

This report was prepared in response to a request from Sixteenth Finance Commission. This report was supported by an Asian Development Bank (ADB) technical assistance project, TA 10279: Strengthening Domestic Resource Mobilization and Public Financial Management.

The report was jointly prepared by teams from the Asian Development Bank (ADB) and PricewaterhouseCoopers Private Limited, India (PwC).

The ADB team was led by Chinmaya Goyal, and included Simran Uppal (ADB consultant), and guided by Rana Hasan and Navendu Karan.

The PwC team consisted of Mehul Gupta, Arijit Das, Rupali Sarkar, Fazal Ahmed, and Janhavi Narendra Thakre, guided by Ranen Banerjee and Manoranjan Pattanayak.

Dr. Joao Tovar Jalles from the University of Lisbon contributed insights on international practices, economic literature, and the assessment framework.

## Table of Contents

## List of Figures



## List of Tables



## List of Boxes

## List of Tables in Annexure

# Executive summary

India's roadmap to Vision 2047 and its path to becoming a developed nation necessitates sustained economic and social development, aided by investment in people, land and infrastructure. A strong catalyst of this is high quality of public expenditure, owing to its positive impact in stimulating productive investments, enhancing human capital and strengthening inclusive development while maintaining fiscal stability.

This study focuses on subsidies and transfers under the broader ambit of quality of expenditure by the center and twenty one large states. While subsidy and transfer schemes can play an important role in addressing market imperfections and supporting the poor and vulnerable, they can also introduce significant distortions in the efficient functioning of markets and also bypass deserving beneficiaries. This is especially so when they are designed to meet short-term political goals rather than broader socio-economic objectives and poorly targeted. These concerns are more salient for subsidy items that account for a large share of public expenditure as they can additionally drain public resources away from other productive expenditures amid competing fiscal priorities.

This study undertakes a comprehensive mapping of subsidies and transfers by central and state governments. While public subsidies have been widely discussed, there are challenges with regards to their estimation. First, there is no universally accepted definition of subsidies and transfers. Second, the existing data on subsidies in the government finance accounts of both the central and state governments is often not comprehensive and can be incomparable across states. Third, no systematic dataset exists on expenditures on cash transfer schemes by governments. For this study, a subsidy is defined as any government expenditure (either in cash or in kind) that (i) allows individuals to consume goods and services at zero prices or lower than those offered in the market (e.g. subsidized electricity) or (ii) raises producers' revenue or reduces cost beyond those that would be possible without this intervention (e.g., procurement of paddy at minimum support price from farmers and subsidies to industries), and (iii) in the case of transfers, the government provides cash directly or indirectly to a beneficiary which is unrelated to the cost of providing any good or service. Subsidy and transfer expenditures are collated using disaggregated data for the central government and selected state governments based on this definition.

The data show that subsidies and transfers by the central government increased after the COVID-19 pandemic, peaked in 2022-23 at about 2.7 per cent of GDP, and then declined to 1.7 per cent of GDP by 2024-25.[1] However, such expenditures have been on a steady rise at the aggregate state level for the twenty one states covered, increasing from 2.1 per cent of Gross State Domestic Product (GSDP) in 2017-18 to 3.0 per cent in 2024-25. This is likely to increase further in 2025-26 based on recently released state budgets.

The estimated subsidies using the proposed definition in this study are higher than that provided in the central budget documents and state finance accounts, largely on account of the classification of subsidy and transfer schemes into other heads of expenditure. At the central level, food and fertilizer have persistently been the top subsidies, accounting for more than 70 per cent of total central government subsidies, while financial assistance expenditure is higher in recent years, driven by cash transfers to farmers. At the state level, electricity, financial assistance, pension and subsistence subsidies, food account for 68% per cent on average of total state subsidies for the twenty one states covered. Sizable subsidies are also given in the form of price support, which are provided to farmers as an additional support to Minimum Support Prices (MSP) for crops like paddy. Such subsidies have increased from 0.9 per cent of total subsidies for all states combined in 2017-18 to 2.1 per cent in 2024-25 RE .However, there is variation in the composition of subsidies across states. The increase in subsidies at the state level is driven significantly by financial assistance, from several new schemes for cash transfers for various beneficiaries. In addition to subsidies recorded on government budgets, there can be significant "off-budget" subsidies, i.e., those not

[1] Subsidies and transfer are sometimes collectively referred to as subsidies for expositional convenience.

captured in the government budgets and provided through state owned enterprises. This is particularly so in the case of the electricity sector.

The aggregate subsidies are large enough to affect fiscal outcomes. At the central level, rising subsidies on account of the pandemic is associated with increases in the fiscal deficit. At the state level, there is a strong positive correlation with the revenue deficit, suggesting that states with higher subsidies also have wider revenue deficits. Furthermore, a higher allocation of subsidies can crowd out other development-oriented spending, which is evident from a strong negative correlation between change in subsidies and capital expenditures as shares of total expenditure and GSDP. There is also concern with regards to targeting of subsidy schemes. Notably, there is a positive link between per capita subsidies and transfers by states and state-level per-capita household expenditure, suggesting that states with relatively higher household incomes have greater per-capita subsidies—presumably driven by the higher resources available to such states.

Owing to their strong fiscal linkages, and due to their increasing share in total expenditure, it is critical to effectively manage subsidies and transfers to ensure effective targeting and that they achieve the desired outcomes. For the review of subsidies, this study suggests an analytical framework based on four key criteria: universal vs. targeted transfers, consumption vs. investment-oriented subsidies, progressive vs. regressive impacts, and positive vs. negative externalities.

Analyzing subsidies through this framework, most electricity subsidies may be seen as consumption oriented, with some states providing these to a target group of households and others providing these without any targeting. Electricity subsidies are also regressive in many states. Analysis of India's household consumption expenditure survey (HCES) shows a significant portion of households with relatively high consumption levels report receiving free electricity. In contrast, food subsidy schemes address critical nutritional needs through targeted interventions, constituting an example of an efficient government expenditure aimed at supporting vulnerable population. At the same time, there are wide differences in per-capita food subsidy given the coverage, extent of subsidy and implementation, potential delivery mechanism and self-selection through quality of rice/wheat/other cereals provided. In some states, relatively rich households also report receiving free food items as per the HCES, and a positive trend is observed between state subsidy expenditure and highest quantile of households by monthly expenditure receiving free food. Financial assistance, which has grown in size especially with availability of DBT-Aadhaar mechanism, are offered by states in different ways—i.e., as a targeted subsidy versus a universal subsidy and as a one-time subsidy versus recurring.

Based on the review of the subsidies and transfers and an examination of good practices in India and globally, the study puts forth some broad policy recommendations to strengthen the quality of expenditure in India. Specifically, the study provides recommendations at two levels.

For the FC, key recommendations cover (i) standardization of the definition and reporting of subsidies and transfers and publication of an annual report on subsidies and transfers, (ii) incentives to improve the quality of expenditure through a rationalization of subsidies, with a focus on power sector reforms (as electricity subsidies form the largest proportion of subsidies) and linking of cash transfers to fiscal capacity and sustainability, (iii) suggesting the formulation of an integrated social security scheme for the informal sector with contributory pay and additional incentives by the government as appropriate, and (iv) calling for mandatory assessment of the impact of new proposed subsidies and transfer schemes to ensure more evidence-based subsidy allocation.

For governments, the recommendations include (i) expanding Aadhar-linked DBT systems to include more schemes, (ii) introducing stronger eligibility and targeting criteria for subsidy and transfer programs, (iii) phasing out universal transfers in favor of targeted transfers, (iv) providing performance-based subsidies like conditional cash transfers linked to the achievement of specific performance outcomes, (v) sunset clauses and periodic audits for subsidies and transfers, and (vi) use of technology for real time tracking systems amongst others.

# 1 Introduction

1.1.1 **The quality of public spending matters for a nation's economic growth and equitable development**. High quality public expenditure can lead to positive economic outcomes such as stimulating productive investments, enhancing human capital and strengthening inclusive development while maintaining fiscal stability. It reduces wastage of public funds and improves the effectiveness of public services.

1.1.2 **This study focuses on subsidies and transfers in India**. Subsidy is a benefit provided by government to groups or individuals, often in form of cash, in-kind, or a reduction in tax levied. As per available data, subsidies account for about 7 per cent to 10 per cent of public expenditure in India. In particular, large subsidies have been provided for electricity and other energy products, food, and transport. Furthermore, in recent years, the central and state governments have introduced several cash transfer schemes, additional schemes for free electricity, and waiver of loans for various social groups. However, the existing data on subsidies in the government finance accounts of both the central and state governments is often not comprehensive and can be incomparable across states.2 Furthermore, no systematic dataset exists on expenditures on cash transfer schemes by governments.

1.1.3 **Impact of subsidies can vary depending on their purpose and design**. Subsidies have been analyzed extensively in the economic literature for their economic impact. They are important tools for addressing market imperfections (for example, where a good is a public good or has a larger social or environmental impact not usually captured in market prices), or for redistributing resources towards the poor and vulnerable.3 However, they can also distort market outcomes, especially when not targeted well. This is especially so when subsidies are designed to meet short-term political goals rather than broader socio-economic objectives. These concerns are more salient for subsidy items that account for a large share of public expenditure as they can additionally drain public resources away from other productive expenditures amid competing fiscal priorities.

1.1.4 **This study provides a comprehensive review of the trends in and composition of subsidies and transfers in India**. The objectives of this study are the following:

- Address data gaps on subsidies and transfers by undertaking a thorough mapping of such expenditure based on disaggregated financial information for central government and state governments.
- Categorize the subsidies and transfers by purpose and type to understand the drivers of such expenditure and relevance of a particular scheme.
- Assess the fiscal impact of subsidies and transfers on budget deficits, and implications for other types of public expenditure.

---

[2] For example, thirteenth Finance Commission of India noted that: "Appendix VI of the state finance accounts is a statement of subsidies disbursed during the relevant year. This statement is expected to bring out all expenditures of the states in the nature of subsidy, rather than only those that are classified as subsidy. There are instances where states have classified subsidies as 'other expenditure' or 'grant-in-aid' and which have, thus not been reflected in the finance accounts as subsidies. In many cases, the accounts of the recipient of assistance show it as subsidy, and thus, it has been accounted as subsidy by the Audit report (Commercial) of the C&AG but not in the finance account. Thus, in some cases, the statement does not provide a true reflection of the aggregate subsidies provided. To be relevant, it is essential that these statements provide comprehensive data on all subsidies."

[3] In contemporary economics, goods are usually defined as public goods if they are both non-rivalrous and non-excludable (*Stanford Encyclopedia of Philosophy*).

- Create an analytical framework for distinguishing between subsidies or transfers based on efficiency and equity considerations and propose measures that could improve the quality of public spending.
- Assess the effectiveness of targeting of key subsidies, namely electricity and food related, across households using the Household Consumption Expenditure Survey of the Government of India.

1.1.5 **Usefulness of the study for policymakers**. A comprehensive assessment of subsidies and transfers will help the Sixteenth Finance Commission (FC) undertake a comparable assessment of Central and State Finances for the award period of the Sixteenth Finance Commission.[4] It can also help guide efforts for rationalization of expenditure, where necessary, and improve fiscal outcomes. Information on the structure and coverage of subsidies "vertically" (i.e., across central and state governments) and "horizontally" (i.e., across individual states) will also allow policymakers to benchmark their proposed and ongoing schemes, understand opportunities for convergence with good practices, and learn about different practices in the design of schemes.

1.1.6 **The structure of the report**. The report is structured as follows. Chapter 2 discusses the relevant economic literature on issues related to the quality of expenditure on subsidies and transfers. Chapter 3 describes methodological issues and covers the definition of subsidies and transfers used here, and details on data sources and data collection. Among others, the chapter explains differences in this study's estimates of subsidies and transfers and those provided under the Union Budget Statements and State Finance Accounts.[5] Chapter 4 present key trends in subsidies and transfers at the level of the central government and across twenty one states. It also provides an analysis of the composition of subsidies and transfers. Chapter 5 sets out an analytical framework for classifying subsidies and transfers based on whether they are universal or targeted, consumption- or investment-oriented, progressive or regressive, and focused on positive or negative externalities. Furthermore, it provides some case studies highlighting good practices in providing targeted subsidies and transfers from India and other economies. Finally, Chapter 6 provides policy recommendations for the government and the Sixteenth Finance Commission and suggests a potential way forward for enhancing the quality of government expenditure in India.

[4] The FC in India is an autonomous constitutional body with the mandate to recommend to the President the distribution between the union and states of the net proceeds of shareable taxes, the principles that should govern provision of grants-in-aid to the states, and any other matter referred to the FC by the President.

[5] The State Finance Accounts report for each State is published by Comptroller and Auditor General (CAG) of India.

# 2 Literature review

2.1.1 **This section reviews the literature on public spending—with a focus on subsidies and transfers**. Specifically, it examines their socio-economic effects, the factors that affect their quality and impact, and the methods used to evaluate them. While a detailed definition of subsidies and transfers as used in this study is provided in the next chapter, for the purposes of this chapter they are broadly defined as tools governments use to encourage economic development, help disadvantaged groups, or advance other national objectives. (Clements, Benedict, and Ian Parry, 2018)

2.1.2 **While there is no definitive list of productive expenditures in the literature, specific types of spending can contribute meaningfully to growth depending on local context and circumstances**. Spending which augments endowments of production factors (capital and labor) or enhances their productivity augurs well for a country's economic growth and development prospects (European Commission, 2012). Other benefits of certain public spending come from crowding-in of private investment, relieving critical supply constraints, improving productivity, and raising potential growth (European Commission, 2012; Bose and Bhanumurthy, 2015; Cordes et al., 2015). The literature also shows that higher government expenditure in social sectors like education has statistically significant positive effects on economic growth, particularly in developing economies (Devarajan et al., 1996). Increase in government spending in the health can also aid economic outcomes, especially in countries with medium and high levels of GDP growth (Wang, 2011). Government investment is an expenditure category more directly linked to growth, as it is associated with an increase in the capital stock of the economy, especially in emerging economies (European Commission, 2012). Such developmental expenditure including that on social welfare have a direct impact on long-term socioeconomic outcomes. (Aschauer, 1989). Meanwhile, expenditures such as those on debt servicing, administrative costs, and non-targeted subsidies do not have a direct impact on productivity (Tanzi and Schuknecht, 1997)

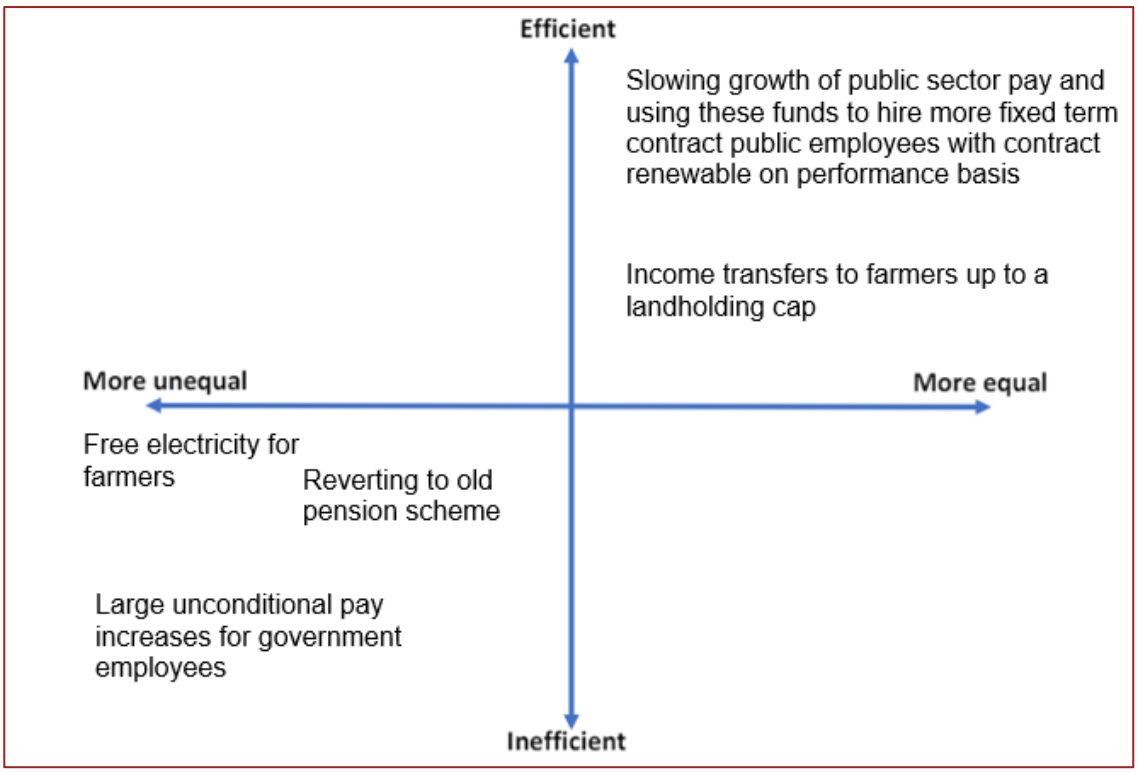
2.1.3 **The need for government intervention through subsidies and transfers is warranted to achieve desired social and economic outcomes and at times to correct market failures**. In certain cases, market failures can lead to under-provision of certain basic goods or services by the private sector. Subsidies are often also aligned to different policy objectives with an aim to attain various intended social outcomes (Schwartz, Hugounenq, and Clements, 1995). For instance, expenditure on social protection cushions the vulnerable groups and helps in some redistribution of income. In the case of externalities, where social marginal benefits exceed the private benefit, subsidies can help achieve more efficient outcomes. For instance, in case of research and development, economic benefits of innovation are spread across the economy (European Commission, 2012).

2.1.4 **However, not all government expenditure on subsidies is desirable as it can increase fiscal burden without easing underlying structural constraints**. When governments finance spending through persistent deficits and rising debt burdens, they risk crowding out productive investment, increasing inflationary pressures, and reducing fiscal flexibility in responding to economic shocks (Reinhart and Rogoff, 2010). Certain subsidies, by design, might create unsustainable fiscal burden on the government and distort market signals leading to crowding out of private investment. This can be due to lack of proper targeting mechanisms that often lead to fiscal misallocation and economic distortions, failing to contribute meaningfully to long-term economic development (IMF, 2022). While some of these subsidies provide temporary relief, they frequently impose a burden on public finances without addressing structural economic challenges (Mundle, 2021). For instance, universal

subsidies such as free electricity for all farmers, irrespective of landholding size and income levels while intended to support agricultural productivity, distort market signals and lead to the overuse of water and energy resources, exacerbating environmental and financial sustainability concerns (Ramaswami et al., 2021).

2.1.5 **Redistribution considerations while assessing subsidies are also crucial**. Certain spending measures involve a tradeoff between equity and efficiency as shown in Figure 2.1. Some public-spending choices are clear wins: for instance, giving everyone better access to education lifts growth and narrows inequality. Others are clear losses: broad energy subsidies slow growth and mostly help the rich, leading to low efficiency and fairness. On this efficiency-equity spectrum are also certain mixed cases—certain projects boost growth and reduce poverty but may widen income gaps, while some redistributive programs curb inequality yet, if over-used, can reduce funds from growth-friendly investments and hurt the economy (Mr. Younes Zouhar, Jon Jellema, Nora Lustig, and Mohamed Trabelsi, 2021).

**Figure 2.1: Illustrative examples of complementarities and trade-offs involved in spending measures**




*Source: Muralidharan (2024)*

2.1.6 **The short-term impact of public spending in terms of demand multipliers of different types of spending favors capital expenditure**. Public spending acts as a countercyclical policy tool, providing much-needed cushion to the economy during economic shocks (Jalles, Kiendrebeogo, Lam. et al, 2024). The benefits of such spending emerge through high multiplier benefits, for example, in India, capital expenditure has an estimated multiplier of 2.45 while transfer payments have a multiplier of 0.98 implying demand leakage (Bose, 2015).

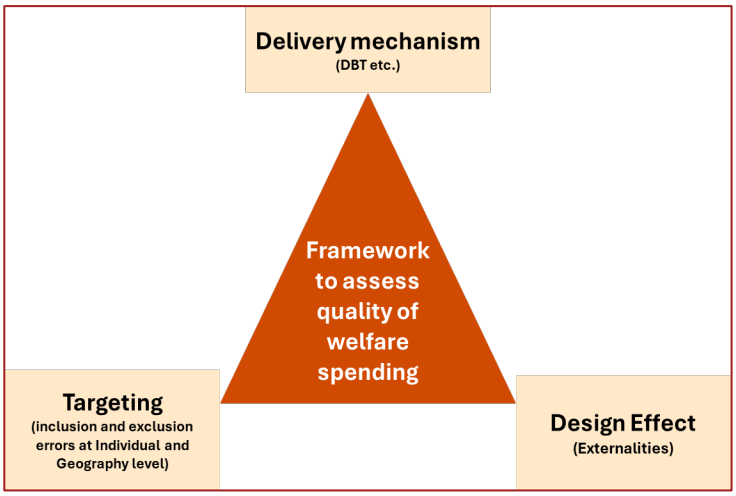
2.1.7 **Political incentives can pose challenges to the implementation of optimal fiscal policy**. There are various ways in which political dynamics can affect fiscal outcomes in an economy. For example, elections can affect the stabilization and redistribution functions of the government. Furthermore, consumption expenditures tend to increase during an

election cycle in such countries at the expense of investments. Similarly, politicians may have an incentive to announce measures that shift the fiscal burden of making politically unpopular decisions to the future governments. Even when subsidies become fiscally unsustainable, such schemes may be continued since their rollback may be politically unpopular. Over time, subsidies can become entrenched as entitlements for current and future generations, which intensifies resistance against reform (Samuelson, 1995). Minority or coalition governments face strong pressure for more expenditures, leading to greater deviation from optimal fiscal policy (IMF Fiscal Politics 2017). Multicountry studies at the general government level show that elections tend to shift public spending in favor of current spending and away from public investment (Schuknecht, 2000; Block, 2002; Vergne 2009; Katsimi and Sarantides, 2012, IMF Fiscal Politics 2017).

2.1.8 **The impact of government expenditure on growth outcomes is also influenced by the effectiveness of public institutions** (Butkiewicz and Yanikkaya, 2011). There is evidence that countries with greater public sector efficiency have achieved superior socioeconomic outcomes without necessarily incurring higher government expenditure (Afonso and Aubyn, 2019). In India, state governments operate various social welfare transfers, including free school meals, health insurance, and direct cash transfers, to enhance social security. While these programs provide crucial support to vulnerable populations, weak coordination between central and state-level initiatives often leads to overlapping benefits and fiscal redundancies (Patnaik et al., 2022). Recent evidence has shown that countries with stronger budget institutions have more sustainable public finances (Dabla- Norris and others 2010; IMF 2014). Specifically, countries with comprehensive fiscal reporting, forecasting, and risk disclosure seem to be less vulnerable to political biases in fiscal policy. In developing countries, strengthening fiscal institutions such as public financial management systems or linking annual budgets to medium-term budget frameworks could mitigate the political pressures to overspend (IMF Fiscal Politics 2017).

2.1.9 **Subsidies globally can be evaluated in terms of a framework that considers public investment efficiency, minimization of leakages, and alignment of fiscal priorities with development goals**. Muralidharan (2024) presents a framework to assess quality of welfare spending as shown in Figure 2.2. The framework covers three dimensions, (i) targeting (whether welfare spending is intended to those in need), (ii) delivery mechanism (whether there are any leakages in transferring welfare budget to intended beneficiaries), (iii) design effect (does the welfare scheme create any negative externalities on society such as environmental effects (over-exploitation of groundwater due to subsidized power to farmers).

**Figure 2.2: Framework to assess quality of welfare spending**




*Source: Adapted from the book Accelerating India's Development- A State-Led Roadmap for Effective Governance. Chapter No: 6. Muralidharan, 2024.*

2.1.10 **A review of various studies on global frameworks to evaluate subsidy reforms and different aspects that need to be considered in evaluation of such subsidies are discussed briefly**. Energy subsidy reforms have been extensively reviewed internationally (IMF, 2013, World Bank, 2018 and ADB, 2017). These reviews find that energy subsidy reforms have impact on greenhouse gas emissions, government's fiscal burden, equitable distribution of benefits, as universal subsidies often favor wealthier groups, and reduction of market distortions. However, reforms require a detailed understanding of the political context for the subsidies. The International Institute for Sustainable Development, 2010 recommends that subsidies should be evaluated as per the reform objective set by the government, thus categorizing subsidies into three buckets: (i) The subsidy does not fulfill the criteria, (ii) the subsidy does fulfill the criteria but is justifiable as an exception and (iii) the subsidy does fulfill the criteria and should be gradually eliminated (Lang, Kerryn and Wooders, Peter and Charles, Chris. (2010)).

# 3 Definition and methodology

## 3.1 Definition of subsidies and transfers

3.1.1 **There is no universally accepted definition of subsidy**. A list of definitions of subsidies and transfers based on literature review are given in the Annexure 2. Definitions of subsidies vary in terms of scope. For example, subsidies are often considered as benefit given by government to groups, individuals and autonomous bodies usually in the form of cash payment.[6] However, in other cases, it is more broadly defined to include, for example, under-recovery in delivery of various publicly provided goods and services.[7]

3.1.2 **Definition of subsidy and transfers for this study**. For this study, subsidy is defined as any government expenditure (either in cash or in kind) that:

- allows individuals to consume goods and services at zero prices or lower than those offered in the market (e.g. subsidized electricity)
- raises producers' revenue or reduces cost beyond those that would be possible without this intervention (e.g. procurement of paddy at minimum support price from farmers, subsidies to industries)
- In case of transfers, the government provides cash directly or indirectly to a beneficiary which is unrelated to the cost of providing any good or service. As per the definition, a subsidy is a form of negative indirect tax (i.e. reduces cost of consumption or use of goods or services) while transfers are a negative direct tax (i.e. enhances incomes of beneficiaries directly).

3.1.3 **Exclusion of implicit subsidy or under-recovery of government services**. The definition of subsidy used in this study excludes implicit subsidies like basic government services provided at zero or lower than market cost. Such public spending is excluded from the definition of subsidy both because our focus is on explicit subsidies as discussed in Section 1, and also due to data limitations in capturing implicit subsidies or under recoveries in government services. Some examples in the text box below highlight the inclusions and exclusions of different public spending as per this definition.

[6] Budget Manual, Government of Rajasthan, Link

[7] NIPFP, 1991, An Analysis of Change in State Government Subsidies: 1977-87, M Govind Rao and Sudipto Mundle Link

**Box 3.1: Examples of inclusion and exclusion of subsidies as per the definition used in the study**

- Benefits provided to private individuals (such as subsidy on electricity) is considered while provision of public services usually considered sovereign functions, such as law and order is not.
- Pensions provided through social protection schemes to private individuals (such as the elderly) are included while pensions to government employees are excluded.
- Provision of services such as education and health by public institutions is not included; however, government subsidies on products which are commonly available for purchase in the market, such as textbooks, school uniforms, bicycles, notebooks, and medicines are considered in the estimates. Similarly, schemes to subsidize private providers of these services such as private hospitals are included.
- Public infrastructure development is generally not considered as a subsidy because they are often in the nature of quasi-public goods. However, development that creates private benefits only, such as construction of houses under Pradhan Mantri Awas Yojana is considered as a subsidy.
- Capital subsidy to industries to promote investment in priority sectors is considered as a subsidy as it reduces the cost of production. However, implicit benefits through tax benefits to industry is not considered due to lack of comprehensive data on impact on government revenues.

## 3.2 Data sources and collection methods

3.2.1 **Existing data does not comprehensively capture subsidies and transfers as per above definition**. Existing subsidy data is available in "Statement on Subsidies and Subsidy Related Items" (Statement 7) of the Union Budget of the central government and "Comparative Expenditure on Subsidies" in State Finance Accounts (SFA) for India's states, as prepared by the Comptroller Auditor General (CAG). However, there are a number of limitations with this data:

- Inconsistent classification across years: For example, payment made to electricity board on behalf of farmers was classified as general grant in the budget document of a state for 2022-23 while the same was classified as subsidy in the subsequent year.
- Misclassification: For example, a crop insurance scheme which provides subsidy on insurance premium that farmers have to pay has not been classified as a subsidy explicitly in the "demand for grants" by a state.
- Non-inclusion of cash transfers: In general, cash transfer schemes are not included in either central or state government accounts.

3.2.2 **This study utilizes detailed demand for grants data for classification of subsidies and transfers**. The detailed demand for grants provides expenditure details by major and minor, object heads. In this study, the following have been considered as subsidy:

- Items with object head explicitly classified as subsidy in center and state government budget
- Items not classified as subsidy, but which are in nature of a subsidy and meet the above definition.[8]

[8] In case of centrally sponsored schemes considered as a subsidy or transfer, such as Pradhan Mantri Fasal Bima Yojna, Mid-day meal scheme, and Pradhan Mantri Ujjawal Yojna etc., the central share is included as subsidy for central government (based on central government data) while state share is included for the relevant State (based on state government data). The breakup of central and state share was not available in the demand for grant for Assam. Thus, we have assumed a 10% state share of scheme expenditure in line with expenditure sharing guidelines of centrally sponsored schemes.

**3.2.3** **Limitations of approach in this study**. The data collection is limited by the availability of information in the detailed demand for grants statements of central and state governments. While major object heads are common in accounts of most state governments, the minor object heads vary in terms of details and classification. This could result in some spending heads not included in our data. Furthermore, data is not collected for very small expenditure schemes (with allocation less than Rs 5 crore), which are likely to have a minor impact on this study's findings. Other key points to be noted are:

- For the central government, all expenditure heads listed as subsidies in the annual statement of subsidies are included. In addition, expenditure for schemes announced in respective central government budget and identified as subsidies as per the definition of this study are included from the demand for grants for the respective years.
- For the state government, data were collected initially for the top departments by expenditure that cover 80 per cent of the total expenditure. However, certain departments have been included if they are deemed to be potentially important based on announcements made in state budgets or respective election manifestos.
- There were also specific instances of data gaps which are mentioned in Annexure, along with assumptions used to address the gaps where applicable.

## 3.3 State coverage and time-period

3.3.1 **All the large states covering about 95% of India's GDP are included in the study.** The states covered are: (i) Punjab, (ii) Maharashtra, (iii) Himachal Pradesh, (iv) Kerala, (v) Andhra Pradesh, (vi) Rajasthan, (vii) Karnataka, (viii) West Bengal, (ix) Assam, (x) Tamil Nadu, (xi) Uttar Pradesh, (xii) Bihar, (xiii) Chhattisgarh, (iv) Goa, (xv) Gujarat, (xvi) Haryana, (xvii) Jharkhand, (xviii) Madhya Pradesh, (xix) Odisha, (xx) Telangana and (xxi) Uttarakhand.

3.3.2 **The period of the study is 2017-18, 2018-19, 2019-20, 2022-23, 2023-24, 2024-25**. Data for 2020-21 and 2021-22 is excluded as may have been influenced significantly from COVID-19. The final actual data for 2024-25 is not widely available; accordingly, revised estimates are used.

## 3.4 Estimates of subsidies and transfers as per the study vis-à-vis conventional estimates

3.4.1 **The estimates of subsidies as per this study are higher than conventional estimates**. The estimates of subsidies and transfers for central government as per this study are higher than those reported in the Statement of subsidies and subsidy related schemes in the Union Budget as shown in Figure 3.1. For the year 2023-24, subsidies as per this study are 0.5% of GDP higher than subsidies as per the budget statement. This study includes schemes that are in the nature of subsidies and transfers though not classified as such. Most of the difference (more than 90% for the year 2023-24) is explained by the following schemes: Pradhan Mantri Kisan Samman Nidhi, Pradhan Mantri Awas Yojana (Rural and Urban), Pradhan Mantri Fasal Bima Yojana and Pradhan Mantri Jan Arogya Yojana. Similarly for the state level, the estimated subsidies are higher than reported in state fiscal accounts (SFA) or by RBI throughout the study period as shown in Figure 3.2.

**Figure 3.1: Trend of central government subsidies as per cent of GDP – Statement of Subsidies v/s study estimates**

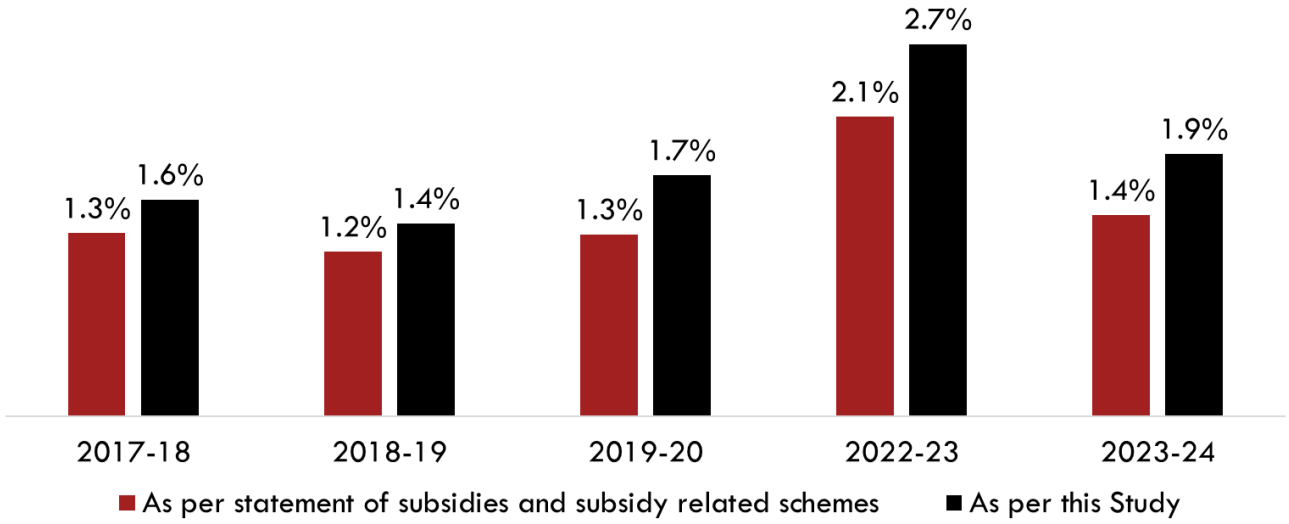
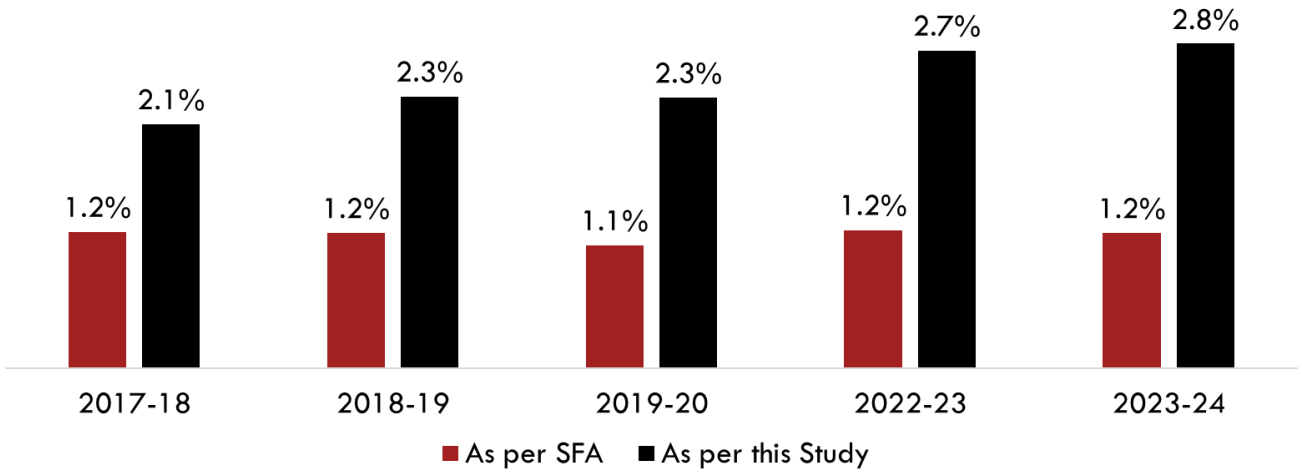



**Figure 3.2: Trend of aggregate state subsidies and transfers as per cent of GSDP – SFA v/s the study estimates**

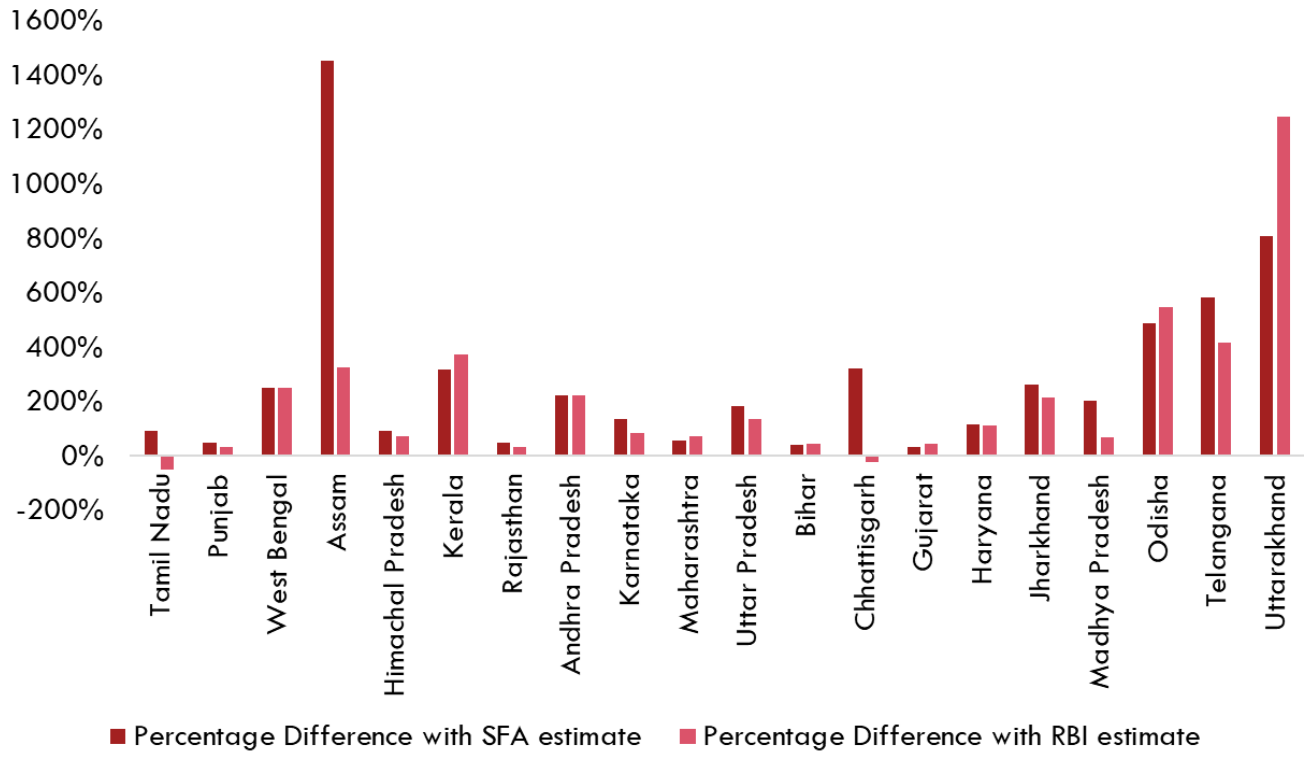



*Source: Demand for grants document, SFA, RBI, Note. 1) For West Bengal, SFA account for 2022-23 and 2023-24 is not available, hence replaced it with 2022-23 and 2023-24(RE) data from RBI 2)* Due to unavailability of SFA and RBI data for Goa, it has not been included. *3) For the state governments, the RBI and SFA estimates include both central as well as state share but, in this study, only state share is considered.*

3.4.2 **The difference between subsidy estimates as per this study and as reported in SFA/RBI documents is much smaller in case of states like Gujarat, Bihar, Punjab, Rajasthan and Maharashtra, while its sharply higher in Assam, Kerala, Telangana, Odisha and Uttarakhand**. Figure 3.3 shows that the difference between estimates of

subsidies as per this study and that obtained from SFA/RBI varies significantly across states.

**Figure 3.3: State wise Subsidies and Transfers (as per cent of GSDP): SFA/RBI v/s the study estimates (2023-24)**




*Source: Demand for grants document, SFA, RBI, Notes: 1) For 2023-24, the revised estimates are taken from RBI. 2) For West Bengal, SFA account for 2023-24 and 2022-23 is not available, hence replaced it with 2023-24 data from RBI and due to unavailability of SFA and RBI data for Goa, it has not been included. 3) For Assam, Gujarat, Maharashtra and Uttrakhand , RBI data for 2023-24 is not available. Hence 2022-23 data from RBI is repeated for 2023-24. 4) In case of Tamil Nadu, state government classification used by RBI considers all welfare expenditure (i.e. all expenditure excluding salaries, pensions and retirement benefits, capital outlay, net lending and non-wage operational expenses) as subsidies and transfers.*

3.4.3 **At state level, this difference is largely on account of the classification of subsidy schemes into other heads of expenditure**. Table 3.1 shows expenditure heads considered as subsidies in this study but not in SFA. Financial assistance, electricity and pension and subsistence allowance constitute around 80 per cent of the total difference in subsidy estimate between this study and SFA.

**Table 3.1: Schemes considered as subsidies in this study but not in SFA**

| Purpose | Amount (INR Crore, 2023-24) | Examples of heads not considered as Subsidy and Transfer in SFA |
|---|---|---|
| Pension and Subsistence Allowance | 77109 | Cheyutha Pension in Telangana (7335 Crores), NTR Bharosa Pension in Andhra Pradesh (5680 Crores), Old Age Samman Pension Scheme in Haryana (5008 Crores) and Sandhya Suraksha in Karnataka (4001 Crores). |
| Electricity | 66471 | Losses of TANGEDCO under UDAY Scheme (17117 Crores), Loss funding of electricity distribution company under revamp schemes in UP (9700 Crores) and Taking over discom losses under UDAY (5571 Crores). |

| Purpose | Amount (INR Crore, 2023-24) | Examples of heads not considered as Subsidy and Transfer in SFA |
|---|---|---|
| Financial Assistance | 57182 | Gruha Lakshmi in Karnataka (16964 Crores), Orunodoi Scheme in Assam (3202 Crores), Rajiv Gandhi Farmer Justice Scheme in Chhattisgrah (4926 Crores). |
| Loan Waiver | 25315 | Scheme for debt relief to farmers in Telangana (11021 Crores), Grant for waiver of agriculture loans in Tamil Nadu (2478 Crores) and Loan Waiver to SC Corporations in AP (1348 Crores). |
| Price Support | 17416 | Krishak Unnati in Chhattisgarh (13320 Crores) and Price support to sugarcane farmers in Uttarakhand (210 Crores). |
| Housing | 15112 | PMAY- Housing for all in UP (2380 Crores), PMAY in Odisha (1313 Crores) and Shabari Tribal Housing Scheme in Maharashtra (1250 Crores). |
| Investment Promotion | 14898 | Rythu Bharosa in Telangana (13576 Crores) and Assistance to Textile Mills in UP (423 Crores). |
| Food | 14577 | MSP Scheme in Maharashtra (4771 Crores) and Supplementary Nutrition- ICDS in UP (1027 Crores). |
| Healthcare | 14340 | National Rural Health Mission in UP (2945 Crores), Biju Swasthya Kalyana Yojana in Odisha (1452 Crores) and Karunya Arogya Suraksha Padhathi in Kerala (692 Crores). |
| Total | ~3 lakh crore | |

*Source: Demand for grants document, SFA*

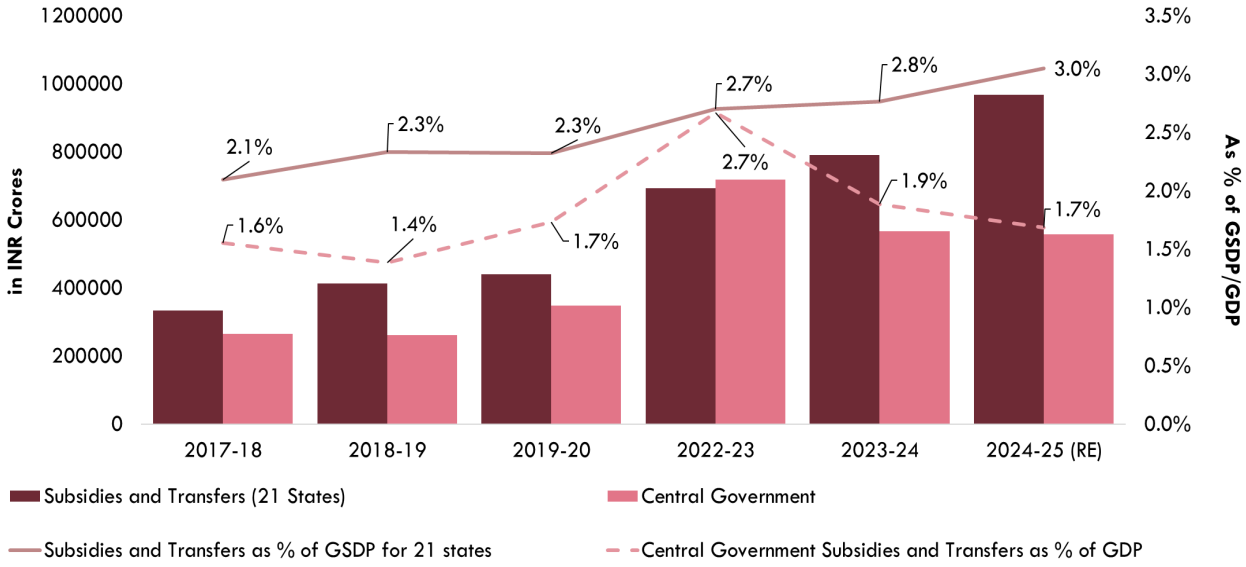
*Note: This table does not include analysis for Goa, West Bengal and Madhya Pradesh due to Unavailability of SFA documents for Goa and West Bengal. In Madhya Pradesh, scheme wise account of subsidy is not given in SFA document, hence, scheme wise comparison cannot be done*

# 4 Trends and composition of subsidies and transfers

## 4.1 Trends of subsidies and transfers

4.1.1 **After increasing due to the COVID-19 pandemic, central government subsidies and transfers have reduced to pre-pandemic levels**. Subsidies and transfers as a percentage of GDP for the central government rose between 2017-18 and 2022-23 and peaked in 2022-23 as shown in Figure 4.1. This indicates greater emphasis on welfare provisioning and income support mechanisms, particularly in response to the economic shock due to the COVID-19 pandemic and increasing food and energy prices in 2022. Notably, after this, subsidies declined not just as share of GDP, but also in nominal terms as prices of key commodities declined.

**Figure 4.1: Subsidies and Transfers, 2017-18 to 2024-25 (RE)**



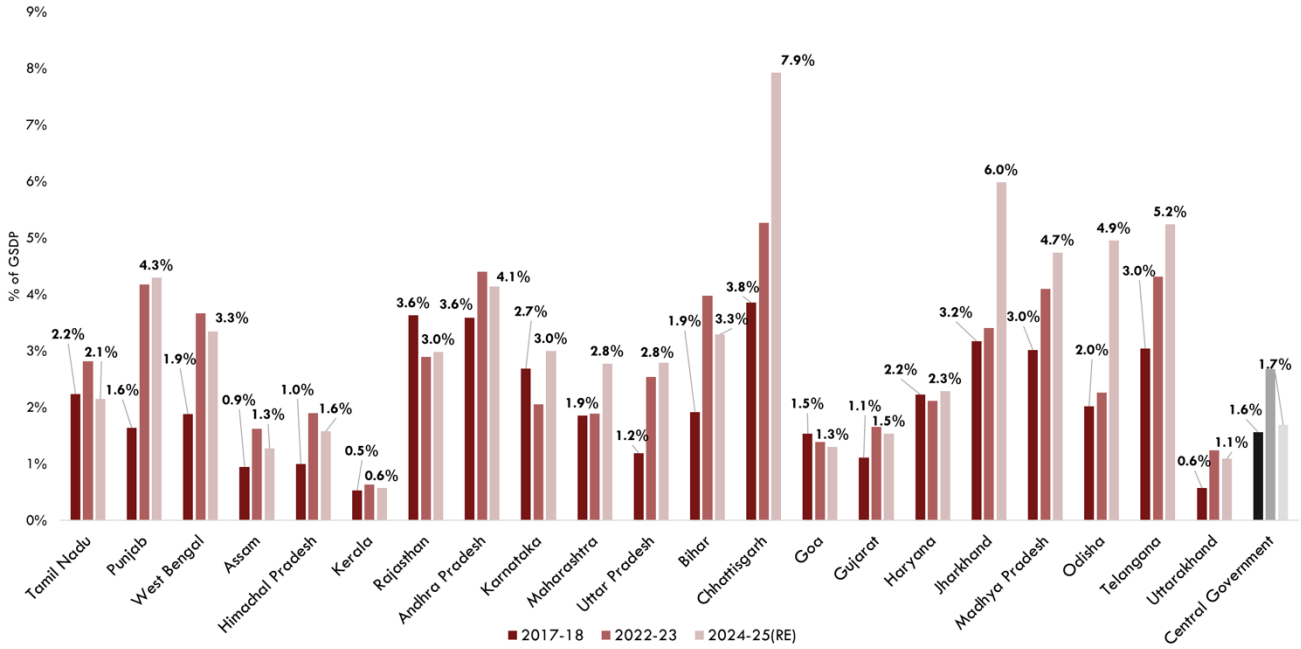

*Source: All fiscal data is obtained from publicly available state government and central government budget documents such as demand for grants and other statements submitted as part of the Budget, GSDP from National Accounts Division, MoSPI, GOI, RE refers to revised estimates*

4.1.2 **On the other hand, aggregate subsidies and transfers at the state level have shown a steady increase over the period considered**. Figure 4.1 shows subsidies and transfers have increased in aggregate for the twenty one states from about 2.1% of GSDP in 2017-18 to 3.0% of GSDP in 2024-25. Figure 4.2 shows that the levels of subsidies and transfers vary significantly across states. Among the states covered in this study, the highest subsidies as per cent of GSDP are in Chhattisgarh, Jharkhand, Telangana, Odisha. Madhya Pradesh, Punjab and Andhra Pradesh (above 4% of GSDP) while they are relatively low in Kerala, Uttarakhand, Assam, Goa, Gujarat and Himachal Pradesh (below 2% of GSDP). However, the increasing trend of subsidies and transfers holds true for almost all the states, barring Rajasthan and Goa. Figure 4.3 shows that the highest growth during 2017-18 to 2024-25 was in Jharkahnd, Odisha, Madhya Pradesh, Punjab, Chhattisgarh, and Telangana.

4.1.3 **Subsidies and transfers in 2025-26**. In their 2025-26 budgets, many states have either continued or introduced new schemes in the form of financial assistance to women or other groups, free bus service to women, and/or free electricity up to a specified level of units or

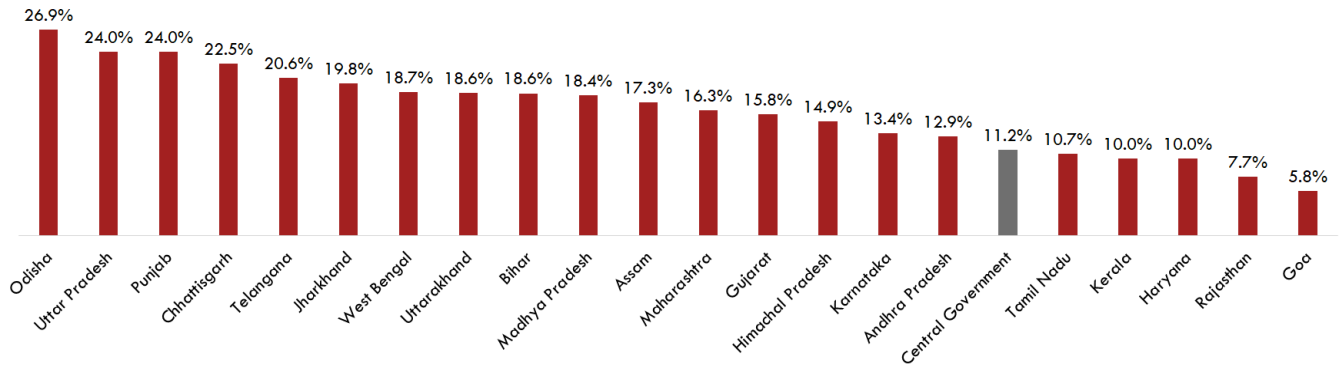
at subsidized rates.[9] Further, budget allocations for many major schemes have increased. As a result, it is likely that total subsidies and transfers will continue to see an upward trend, especially in these states.

**Figure 4.2: Subsidies and Transfers as a per cent of GSDP for Center and select State Governments**




*Source: Demand for Grants, Central Government and various states, GSDP from National Income Accounts, MOSPI, RE refers to revised estimates*

**Figure 4.3: Compound annual growth rate (per cent) of subsidies and transfers for 21 states and at the Central level (2017-18 to 2024-25 (RE))**



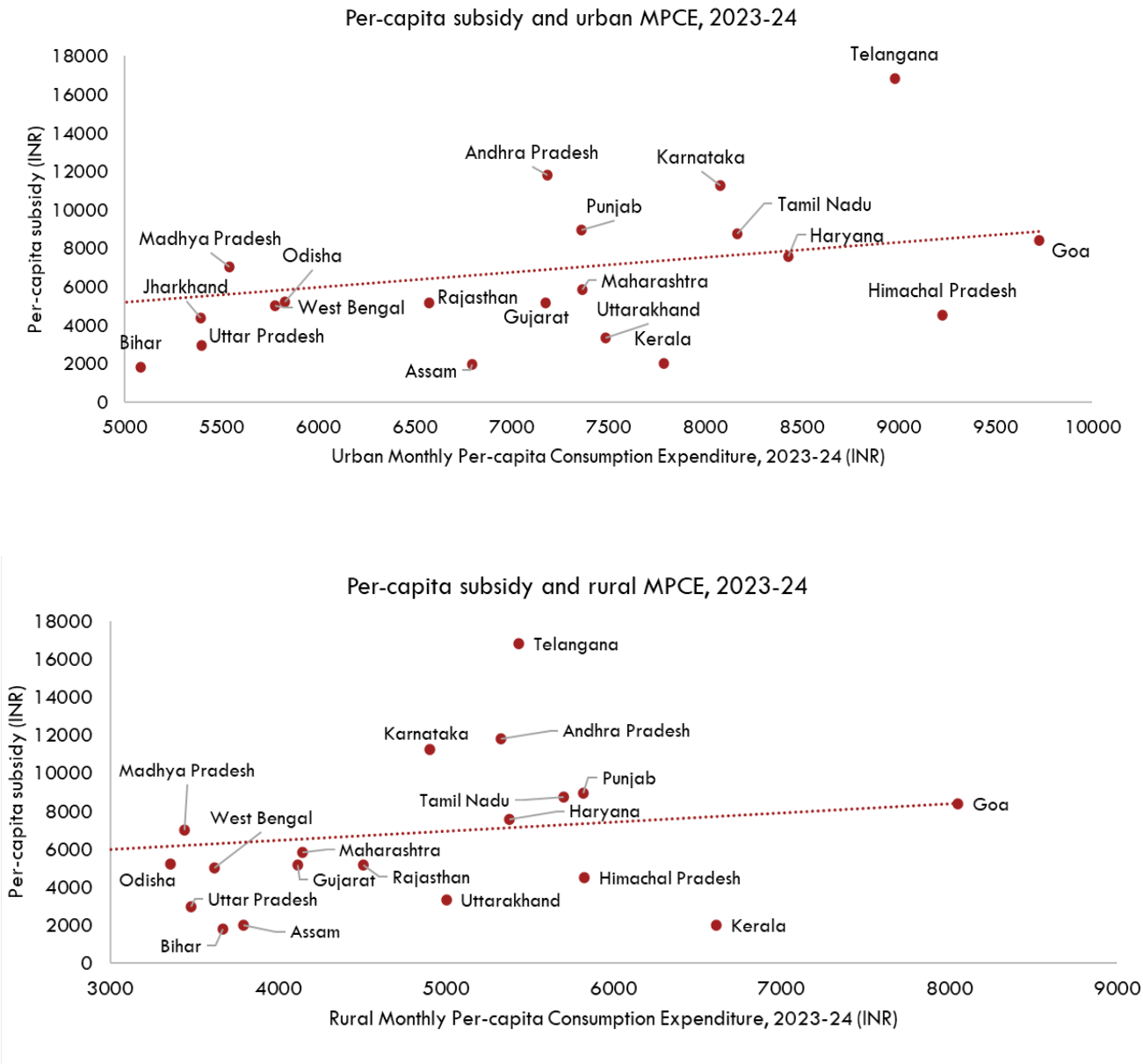

*Source: Demand for Grants, Central Government and various states, GSDP from National Income Accounts, MOSPI, RE refers to revised estimates*

4.1.4 **There is positive correlation between per capita subsidy and transfers by states and state-level per-capita household expenditure** as shown in Figure 4.4. An important objective of subsidies and transfers is to redistribute income to the relatively poor. Whether this is true at the state level can be examined by assessing the per capita subsidy and per capita incomes across states – proxied by average household monthly per capita expenditure (MPCE) in the state. Doing so shows a positive relationship between per-capita

[9] Under a new scheme, Mukhyamantri Mazi Ladaki Bahin Yojana. announced in the 2025-26 budget, the Maharashtra government intends to spend INR 28,290 crores for financial assistance of INR 1,500 per month for women. Similarly, continuing with earlier schemes, a budgetary allocation of INR 25,095 crore is provided for the Lakshmir Bhandar scheme, providing financial assistance to women in West Bengal while INR 5,300 crore is allocated to the Shakthi Scheme providing free bus travel to women in Karnataka.

subsidy and incomes. Thus, states with moderate to high MPCE have greater per-capita subsidies—presumably driven by the higher resources available to richer states. For instance, in urban areas, Telangana, Andhra Pradesh and Karnataka have higher levels of MPCE and the per-capita subsidy levels above INR 10,000, indicating large spending on subsidies and transfers on a per-capita basis. On the other hand, states such as Bihar, Uttar Pradesh, Jharkhand, West Bengal, Odisha and Madhya Pradesh, with low urban MPCE, spend relatively lower amounts on subsidies in per-capita terms. This suggests a potential for rationalization of subsidies in terms of effective targeting, progressivity and investment orientation. A similar pattern is observed if rural incomes are considered as well.

**Figure 4.4: Per Capita Subsidy and MPCE (Rural and Urban)**



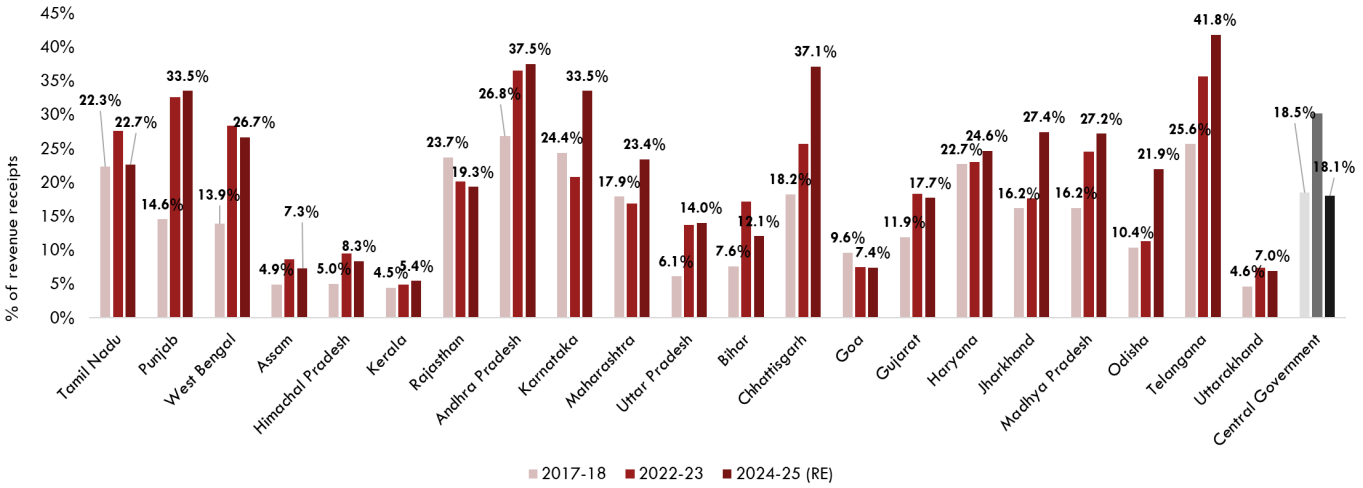

*Source: Demand for Grants, various states and Household Consumption Expenditure Survey, MOSPI, 2023-24*

4.1.5 **Subsidies and transfers form a significant portion of revenue receipts and expenditures**.[10] Figure 4.5 and Figure 4.6 shows that the central government subsidies and

[10] Revenue receipts refer to current revenues from recurring sources such as taxes. Revenue expenditures are recurring current expenditures.

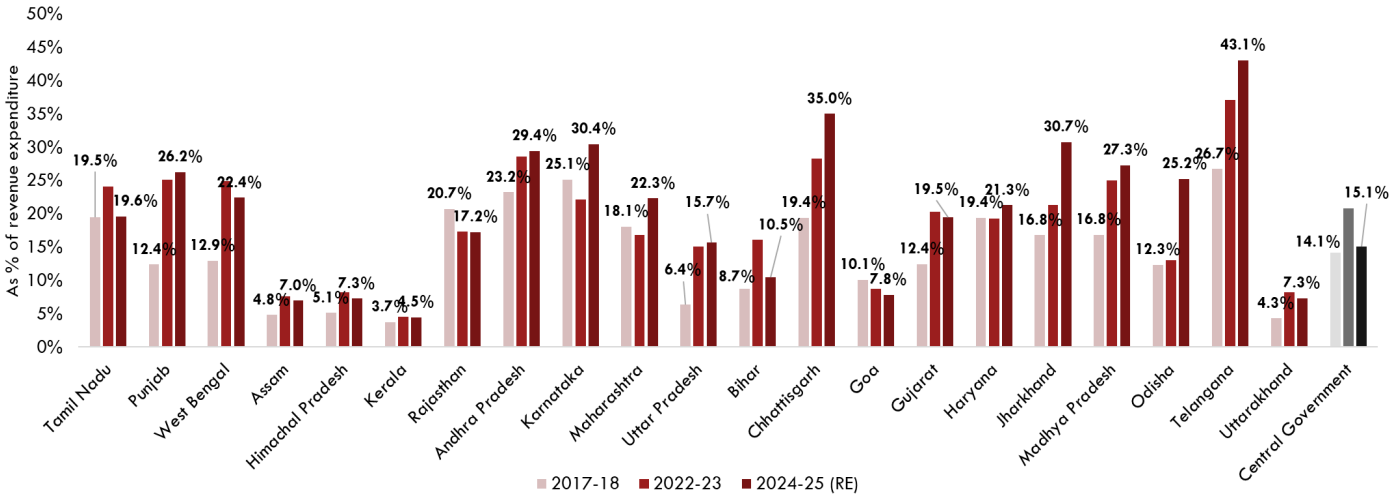
transfers as a share of revenue receipts and expenditures were 18% and 15% respectively, in 2024-25. However, for states, this proportion was generally higher, especially for Telangana, Andhra Pradesh, Chhattisgarh, Karnataka and Punjab, which used over 30% of their revenues for subsidies and transfers.

**Figure 4.5 : Subsidies as % of Revenue Receipts**




*Source: Demand for Grants, Central Government and various states. RE refers to revised estimates.*

**Figure 4.6: Subsidies as % of Revenue Expenditure**



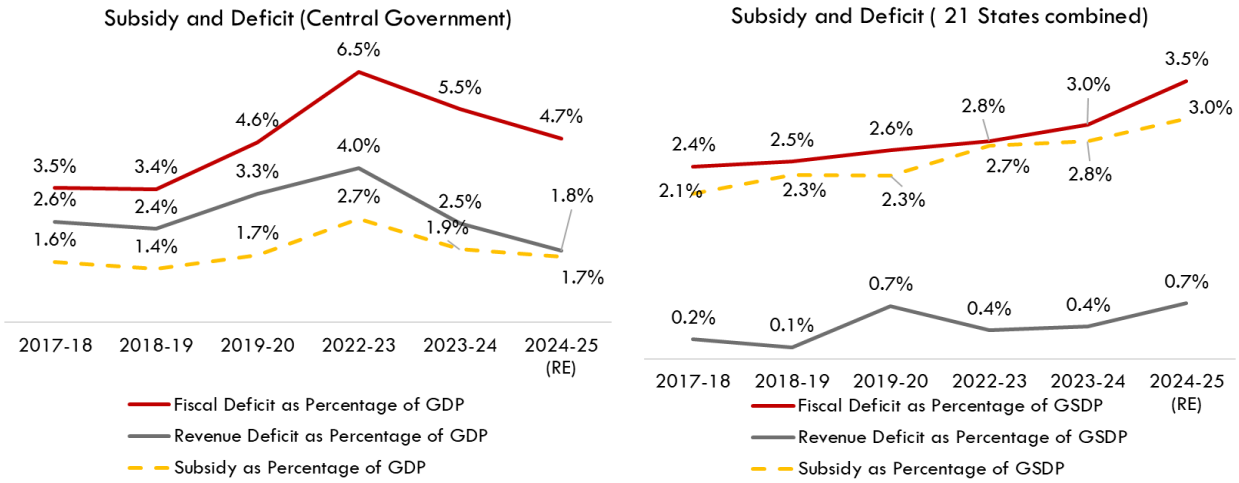

*Source: Demand for Grants, Central Government and various states, RE refers to revised estimates. Subsidy also includes transfers made by respective governments.*

## 4.2 Relationship between subsidies and transfers and fiscal health

4.2.1 **Aggregate subsidies and transfers are large enough to potentially impact fiscal health through higher deficits**. We explore how these may affect fiscal and revenue

deficits.[11] As shown in Figure 4.7, for the central government, the fiscal and revenue deficit expanded significantly post-COVID but has reduced subsequently. In particular, the revenue deficit has fallen significantly below pre-COVID levels, highlighting increasing capital expenditure by the central government. Subsidies and transfers have moved in tandem with the fiscal and revenue deficit, suggesting some role of these expenditures in an initial expansion and then subsequent reduction of central government deficits. In contrast, for the states considered in this study, the fiscal deficit, revenue deficit and subsidies have a broad increasing trend over time as share of GSDP.

**Figure 4.7: Trends in subsidies, fiscal deficit and revenue deficit (per cent of GDP/GSDP)**




*Source: Demand for Grants, Central Government, various states, National Income Accounts, MOSPI, RBI Study of State Budgets, RE refers to revised estimates. Subsidy also includes transfers made by respective governments.*

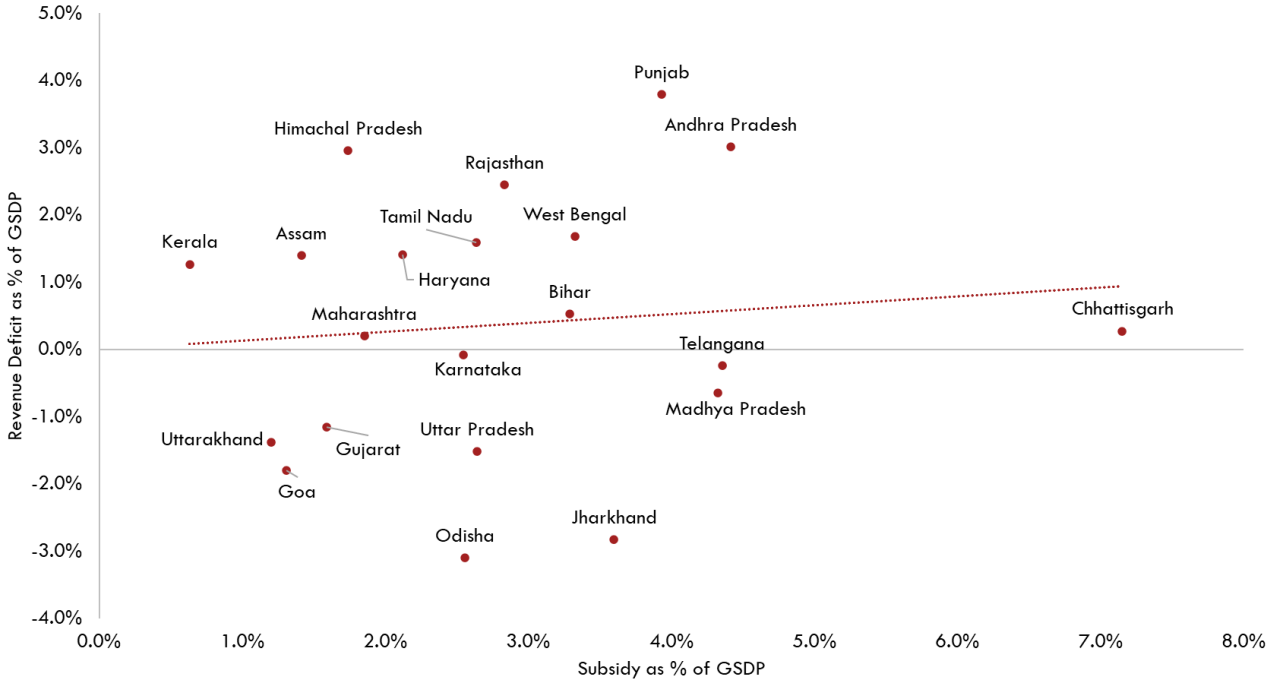
4.2.2 **Higher subsidies are linked to higher revenue deficits in states**. Figure 4.8 and Figure 4.11 show the correlation of subsidies (as a percent of GSDP) in states with revenue of the states and between changes in them during 2017-2020 and 2022-2024. There is a strong positive correlation with the revenue deficit, suggesting that states with higher subsidies also have wider revenue deficits. Once introduced, subsidies and transfers can be relatively sticky current expenditure, so they are likely to play an important role in higher revenue deficit. Further, increasing revenue deficit in states after 2022-23 is also linked to increased subsidies and transfers. Analysis in Box 4.1 also establishes the positive relationship between subsidies and revenue deficit.

4.2.3 **In general, subsidies are not strongly linked to fiscal deficits of states (**Figure 4.12 to Figure 4.14). This could be because fiscal deficit of States is governed by the Fiscal Responsibility and Budget Management (FRBM) laws and additional incentives by central government in the form of additional borrowing allowance subject to certain conditions being met. So, rising subsidies and transfers may not necessarily be financed by higher borrowings at the state level. However, the correlation of change in fiscal deficit of states with changes in subsidies during 2022-2024 vis-à-vis 2017-2020 is stronger, which

[11] Fiscal deficit is the gap between all receipts (other than borrowings) and expenditures, while revenue deficit is gap between current revenues and current expenditures. If the revenue deficit is zero, it shows that all borrowing by a government is for undertaking capital expenditures.

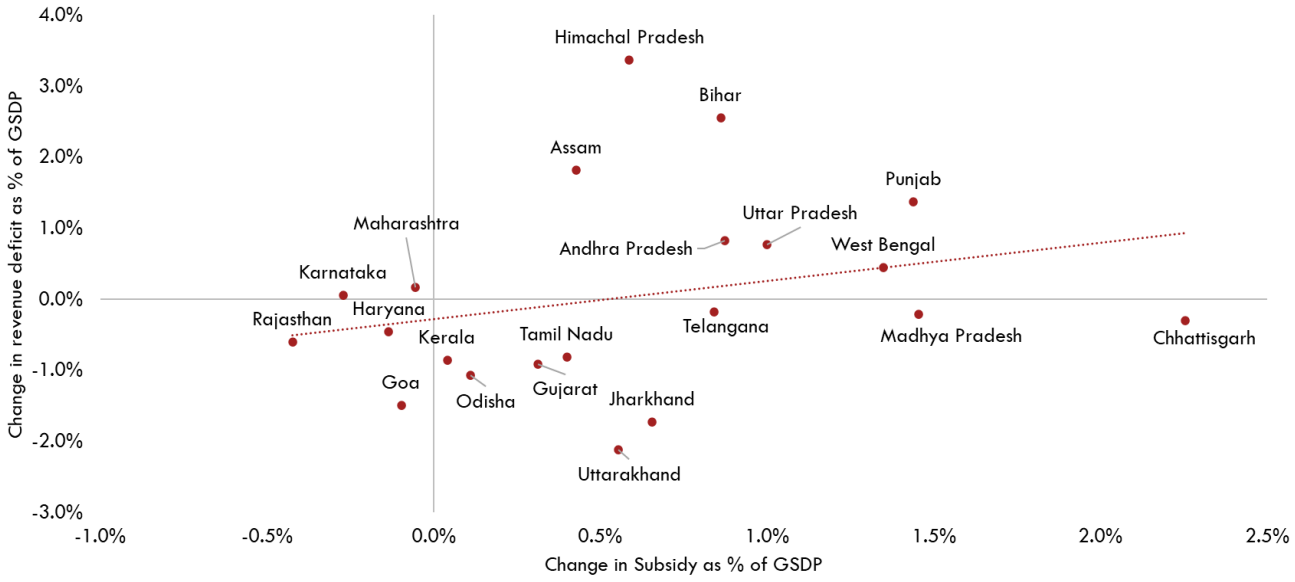
suggests there could be link between increase in post-COVID fiscal deficits in some states with rising subsidies.

**Figure 4.8: Correlation between subsidies and revenue deficits for States (per cent of GSDP, Average (2022-23 and 2023-24))**



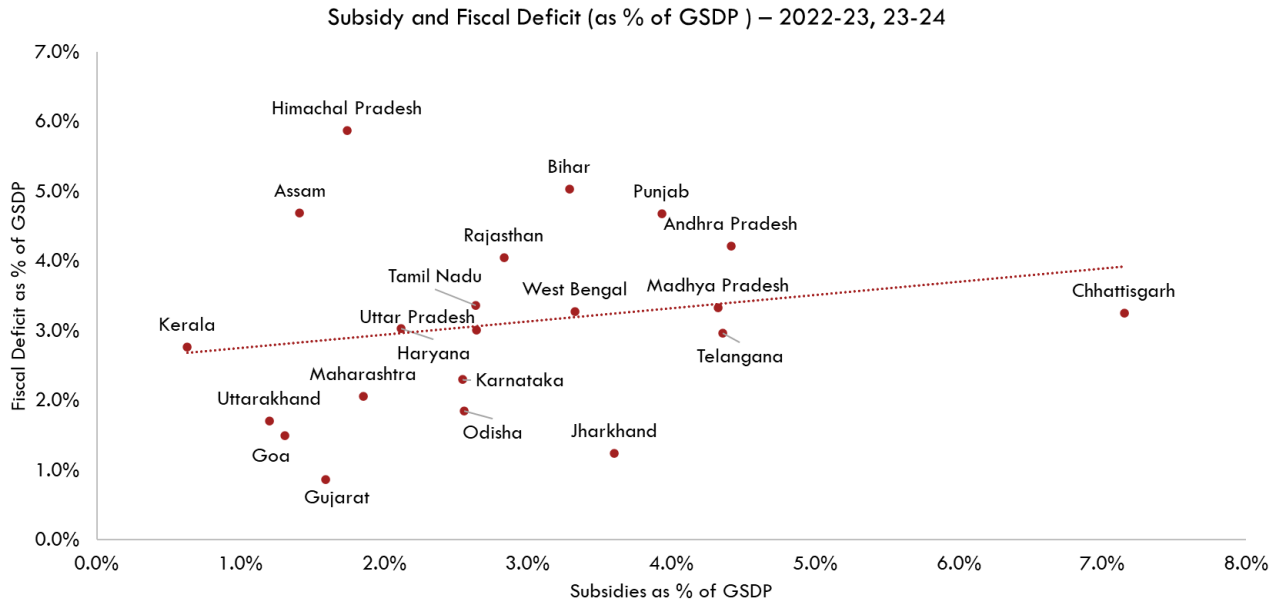

*Source: Demand for grants document, State Finances-A Study of State Budgets, RBI, 2024*

**Figure 4.9: Correlation between change in subsidies and change in revenue deficits (as per cent of GSDP, Average (2017-18, 2018-19 and 2019-20) vs Average (2022-23 and 2023-24))**



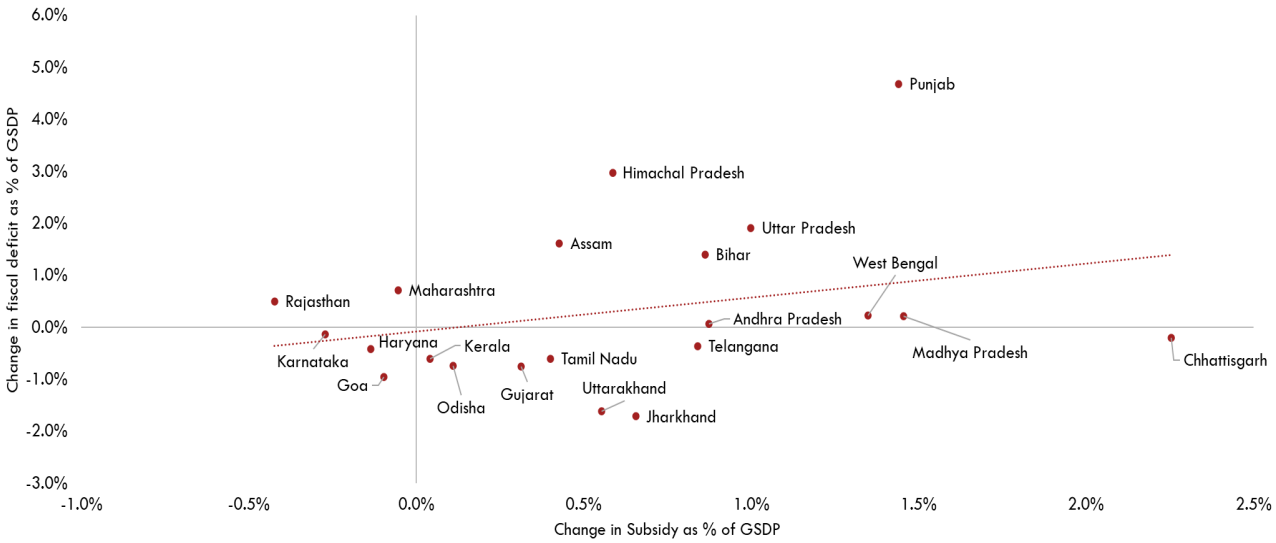

*Source: Demand for grants document, State Finances-A Study of State Budgets, RBI, 2024*

**Figure 4.10: Correlation between subsidies and fiscal deficits (as per cent of GSDP, Average (2022-23 and 2023-24))**




*Source: Demand for grants document, State Finances-A Study of State Budgets, RBI, 2024*

**Figure 4.11: Correlation between change in subsidies and change in fiscal deficits (as per cent of GSDP, Average (2017-18, 2018-19 and 2019-20) vs Average (2022-23 and 2023-24))**

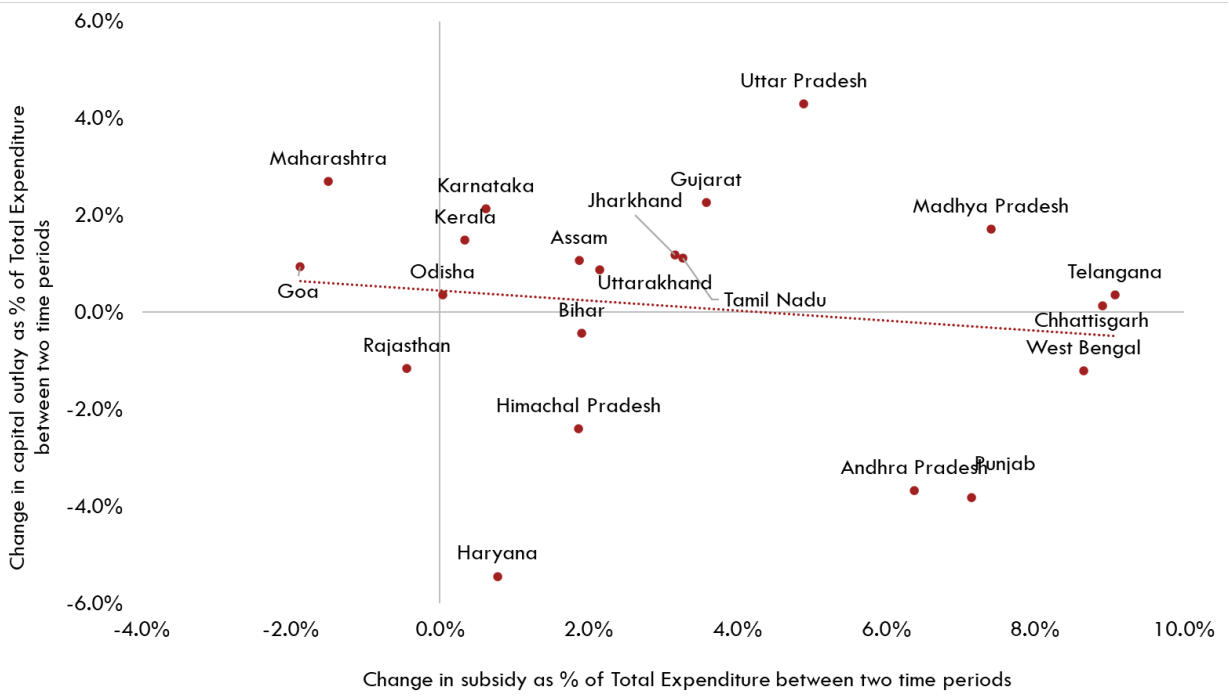



*Source: Demand for grants document, State Finances-A Study of State Budgets, RBI, 2024*

4.2.4 **Higher subsidies have significant implications for public capital expenditure**. Amid fiscal constraints and limited resources, a higher allocation of subsidies can crowd out other development-oriented spending. In Figure 4.12 to Figure 4.14, we examine the correlation between changes in subsidies and transfers and changes in state-level expenditures on

capital expenditure and economic and social services during 2022-24 relative to 2017-2020. We calculate these as share of total expenditure but also show the results when expressed as share of GSDP in Annexure 4 .There is a negative correlation between changes in capital expenditure and changes in subsidies and transfers, implying that states with large increase in subsidies over time have also seen a reduction in the share of capital expenditure. However, some states can be outliers—such as Uttar Pradesh and Madhya Pradesh, which increased its capital expenditures significantly despite raising subsidies, achieved through a reprioritization of capital expenditures over other components of revenue expenditure.

**Figure 4.12: Change in capital outlay and subsidy (as % of total expenditure): Time period- average (2022-23 and 2023-24) over average (2017-18, 2018-19 and 2019-20)**

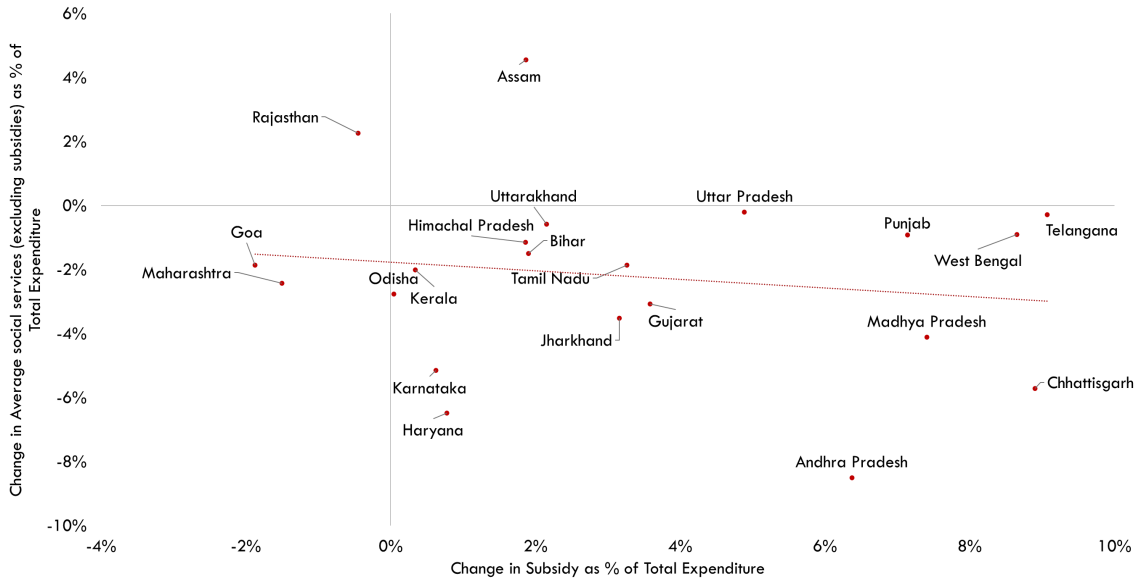



*Source: Demand for grants document, State Finances-A Study of State Budgets, RBI*

4.2.5 **In the case of government expenditure on economic and social services there is a mixed result**. There is a stronger negative correlation vis-à-vis economic services suggesting that an increase in subsidies and transfers restricts the fiscal space available for other types of economic services. [12] The correlation is also negative in case of social services, though not as stronger. The analysis in Box 4.1 also establishes the negative relationship between subsidies and capital expenditure and economic services expenditure in particular.

[12] Economic services encompass expenditures related to a range of sectors, including agriculture and allied activities, energy, transport, communication, industry, and infrastructure development, among others.

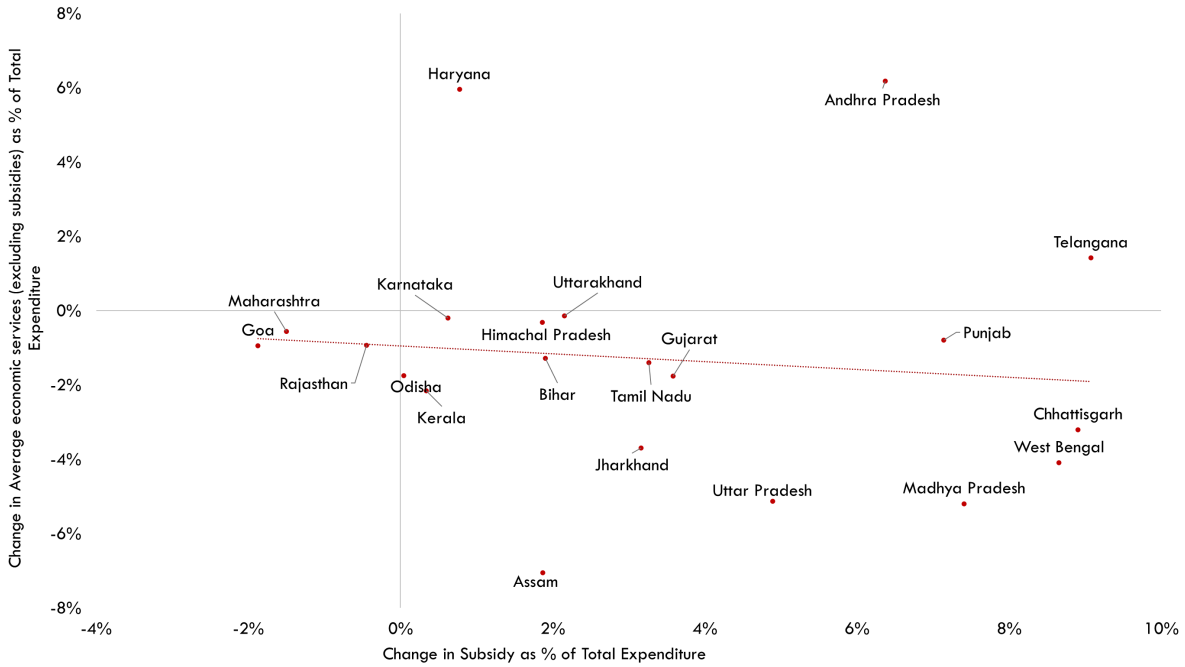
**Figure 4.13: Change in social services (excluding subsidies) and subsidy (as % of total expenditure) Time period- average (2022-23, 2023-24) over average (2017-18, 2018-19 and 2019-20)**




*Source: Demand for grants document, State Finances-A Study of State Budgets, RBI, State Finance Accounts*

*Note: For all states (except Goa and West Bengal), 2023-24 government expenditure on social services are actuals taken from the State Finance Accounts of the respective states. For Goa and West Bengal, 2023-24 numbers are revised estimates taken from State Finances-A Study of State Budgets, RBI. Subsides are as estimated in this study. Social services expenditures exclude subsidies and transfers.*

**Figure 4.14: Change in economic services (excluding subsidies) and subsidy (as % of total expenditure): Time period- average (2022-23 and 2023-24) over average (2017-20)**




*Source: Demand for grants document, State Finances-A Study of State Budgets, RBI, State Finance Accounts*

*Note: For all states (except Goa and West Bengal), 2023-24 government expenditure on economic services are actuals taken from the State Finance Accounts of the respective states. For Goa and West Bengal, 2023-24 numbers are revised estimates taken from State Finances-A Study of State Budgets, RBI. Subsides are as estimated in this study.*

**Box 4.1: Assessing fiscal impact of subsidies**

The fiscal impact of subsidies is assessed through a two-way fixed effects regression of data for the 21 states throughout the years covered by the study.

We examine the impact of subsidies expenditure (independent variable) on the other expenditure categories: (i) capital outlays, (ii) social service expenditure (excluding subsidies), (iii) economic services (excluding subsidies). Total expenditure is used as the control variable. All variables are scaled by states' GSDP for the year. We expect that controlling for the total expenditure, increasing subsidies would be associated with fall in other types of expenditures due to expenditure reallocation. The fall could be greater for capital outlays and economic services (such as agriculture, urban development, energy and transport sectors etc.) compared to social services expenditure (such as health and education sectors), as the latter less likely to reduce in short term due to greater committed expenditure like salaries.

Subsidies are also regressed with the revenue deficit, i.e., revenues subtracting revenue expenditures, and fiscal deficit, both expressed in proportion to GSDP. States' fiscal deficit may necessarily be affected by subsidies as they are governed by the FRBM rules' specified targets. The FRBM also generally targets zero revenue deficit, but the mechanism for adherence with revenue deficit targets is relatively weaker. As a result, there is a likelihood for rising subsidies, which are revenue expenditures, to lead to increasing revenue deficits.

The results of the regressions are shown below. As expected, the coefficient for capital outlay, economic services and social services is negative, indicating that as expected increasing subsidies is linked to falling expenditures in these categories, controlling for total expenditures. The results show that capital outlays and economic services are more sensitive. The coefficient for revenue and fiscal deficit is positive but greater in case of revenue deficit than fiscal deficit, showing some link between increasing subsidies to increasing revenue deficit.

| Dependent Variable (% of GSDP) | Coefficient | p-value | t-statistic | R-squared (overall) | No. of Observations |
|---|---|---|---|---|---|
| Revenue Deficit | 0.25* | 0.15 | 1.49 | 0.02 | 126 |
| Fiscal Deficit | 0.11 | 0.57 | 0.58 | 0.20 | 126 |
| Capital Outlay | -0.16** | 0.04 | -2.14 | 0.60 | 126 |
| Social Services Expenditure | -0.17 | 0.18 | -1.37 | 0.71 | 105 |
| Economic Services Expenditure | -0.31*** | 0.003 | -3.39 | 0.51 | 105 |

** p<0.15, ** p<0.05, *** p<0.01*

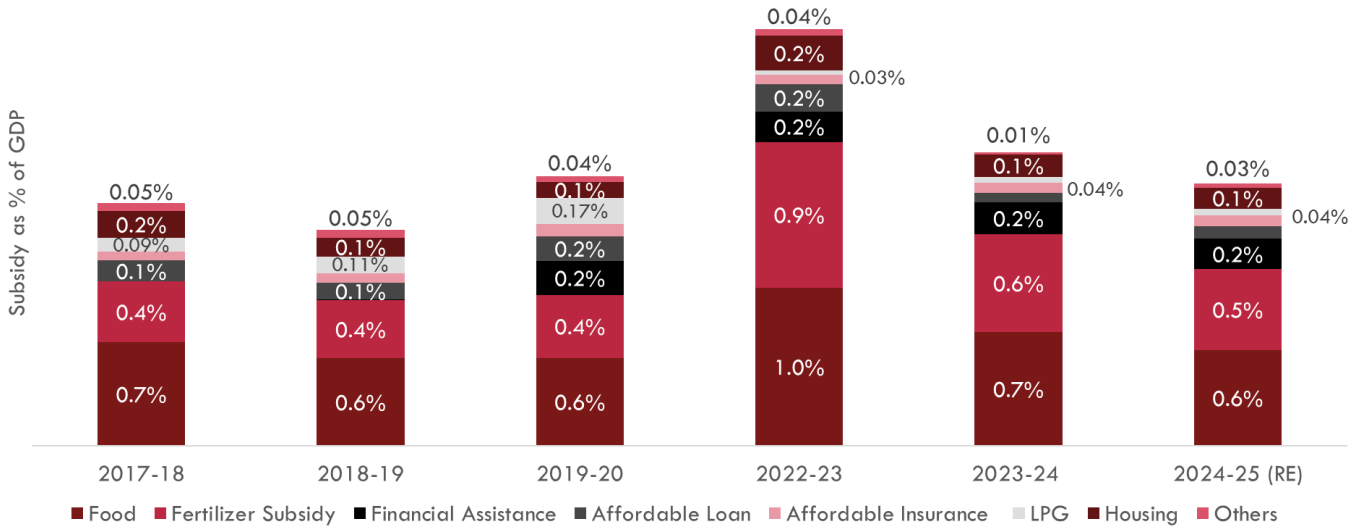
*Note: The main results are robust with different specifications of regression equation, such as when calculating the dependent, independent and control variables as difference from previous year.*

## 4.3 Analyzing the composition and drivers of subsidies

4.3.1 **The composition of subsidies and transfers varies between the center and the state level (aggregated for 21 states) with respect to the purpose of subsidies and the intended beneficiaries**. Figure 4.15 shows that for central government, food and fertilizer have persistently been the top subsidies, accounting for more than 70 per cent of the total central government subsidies. However, there has been a decline in food and fertilizer

subsidies (as per cent of GDP) after peaking in 2022-23. The increase in food and fertilizer subsidies in 2022-23 can largely be attributed to the rise in commodity prices. Notably, there has been a decline in the relatively smaller central government subsidies like LPG as share of GDP in recent years.

**Figure 4.15: Composition of Central Government Subsidies (per cent of GDP)**

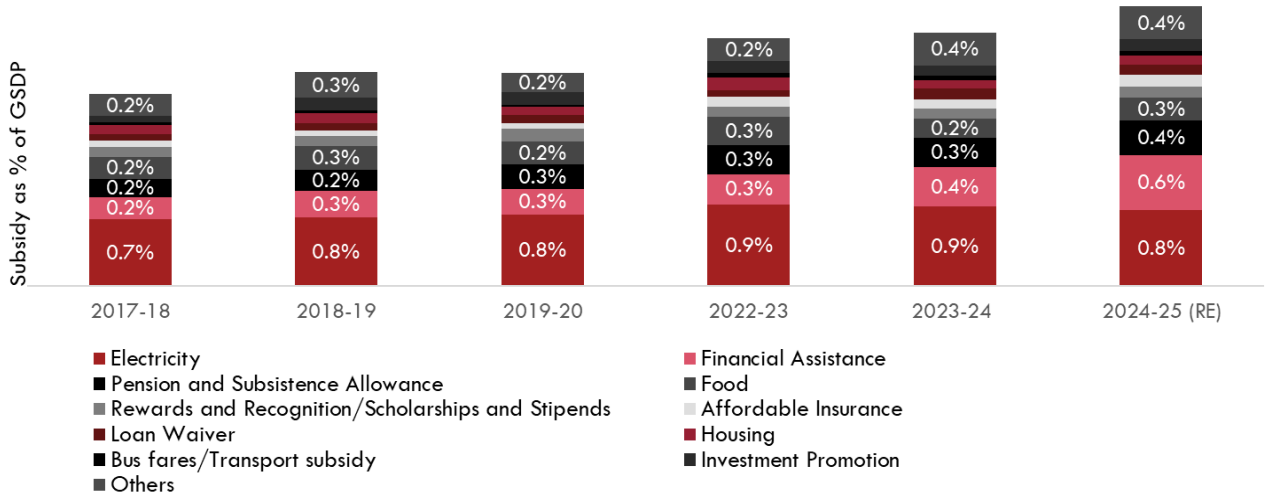



*Source: Demand for Grants, Central Government, National Income Accounts, MOSPI, RE refers to revised estimates*

4.3.2 **For the 21 state governments, at an aggregate level, the four top subsidies have been electricity, financial assistance, pensions and subsistence subsidies and food, accounting for 67 per cent of total state subsidies** as shown in Figure 4.16.[13] Sizable subsidies are also given in the form of price support, which are provided to farmers as an additional support to MSP for crops like paddy. Such subsidies have increased from 0.9 per cent of total subsidies for all states combined in 2017-18 to 2.1 per cent in 2024-25 RE. The increase in subsidies and transfers is primarily due to increased financial assistance and a small increase in already large electricity subsidies between 2017-18 to 2024-25

[13] Pensions and subsistence include old age pensions and rehabilitation grants in the case of natural calamities

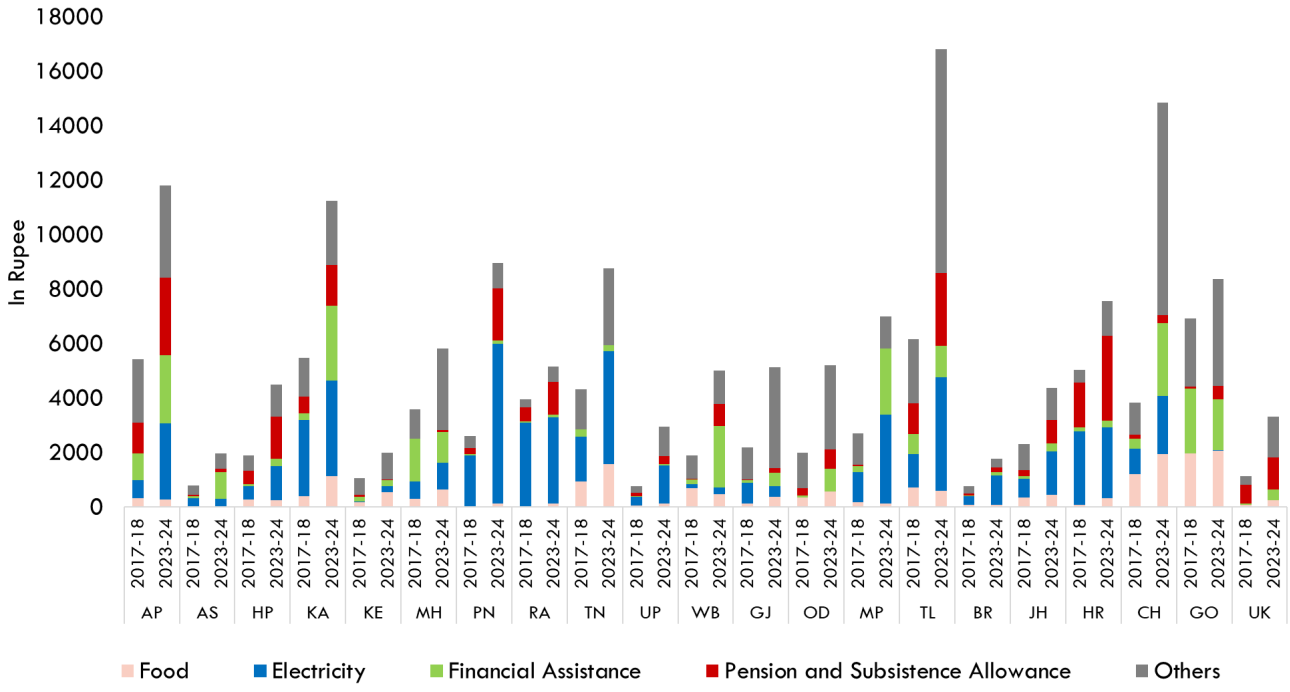
**Figure 4.16: Composition of State Government Subsidies (per cent of GSDP)**




*Source: Demand for Grants, various states, National Income Accounts, MOSPI, RE refers to revised estimates*

4.3.3 **At the disaggregated state level, per capita subsidies have increased for all states between 2017-18 and 2023-24**, with an increase seen across key purposes like electricity, financial assistance and pension and subsistence allowances as shown in Figure 4.17.

**Figure 4.17: Composition of State Government Subsidies (per capita)**




*Source: Demand for Grants, various states, National Income Accounts, MOSPI, RE refers to revised estimates*

4.3.4 **Furthermore, significant variations exist among individual states in terms of the purpose of subsidies and their targeted beneficiaries**. For example, Table 4.1 shows that while the electricity subsidy is the largest as a share of total subsidies in Karnataka,

Punjab, Rajasthan, Tamil Nadu, Uttar Pradesh, Bihar, Jharkhand and Madhya Pradesh it constitutes less than 10 per cent of total subsidies in Kerala, West Bengal, Goa, Odisha and Uttarakhand (based on an average of 2022-23, 2023-24, 2024-25 RE numbers). Similarly, while in Assam and West Bengal, the financial assistance subsidy accounts for close to half of total subsidies, it is less than 2 per cent in Punjab and Rajasthan. Pension and subsistence allowance is considerably high in Andhra Pradesh, Himachal Pradesh, Rajasthan, Haryana and Uttarakhand, it is miniscule in Kerala, Maharashtra and Tamil Nadu. The share of food subsidies is high in Kerala,Tamil Nadu, Chhattisgarh and Madhya Pradesh. Notably, subsidies under the "Rewards and Recognition/ Scholarships and Stipend" heading accounts for nearly 10 per cent of total subsidies in Kerala and 7 per cent in West Bengal while it is relatively small in most other states.

**Table 4.1: Subsidies across states for key purposes (as share of total subsidies and transfers, 2022-23, 2023-24, 2024-25 (RE)), in per cent**

| | Food | Insurance | Electricity | Financial assistance | Health-care | Housing | Loan Waiver | Scholar-ships | Social security | Others |
|---|---|---|---|---|---|---|---|---|---|---|
| Andhra Pradesh | 11.3% | 5.5% | 24.4% | 16.5% | 0.7% | 1.6% | 4.6% | 4.9% | 26.4% | 4.2% |
| Assam | 1.8% | 3.2% | 10.9% | 47.0% | 1.6% | 13.8% | 0.0% | 1.8% | 7.6% | 12.3% |
| Himachal Pradesh | 7.0% | 1.0% | 27.6% | 5.0% | 0.4% | 1.7% | 0.0% | 3.3% | 31.8% | 22.2% |
| Karnataka | 9.1% | 2.0% | 28.8% | 22.3% | 0.0% | 2.4% | 7.5% | 1.6% | 13.9% | 12.5% |
| Kerala | 28.5% | 0.6% | 8.0% | 12.0% | 13.7% | 11.5% | 0.0% | 10.0% | 1.7% | 13.9% |
| Maharashtra | 9.7% | 8.7% | 15.8% | 28.1% | 3.4% | 5.0% | 2.1% | 5.9% | 1.1% | 20.2% |
| Punjab | 1.9% | 1.3% | 68.3% | 1.5% | 0.8% | 0.4% | 0.0% | 1.7% | 19.1% | 4.9% |
| Rajasthan | 2.0% | 3.3% | 60.6% | 2.01% | 0.1% | 0.4% | 0.0% | 2.4% | 24.2% | 4.9% |
| Tamil Nadu | 19.8% | 2.7% | 44.1% | 2.9% | 0.0% | 3.0% | 6.0% | 1.2% | 0.0% | 20.4% |
| Uttar Pradesh | 6.9% | 0.9% | 46.1% | 2.8% | 4.6% | 3.6% | 4.6% | 5.9% | 10.1% | 14.6% |
| West Bengal | 15.4% | 6.6% | 4.5% | 43.7% | 0.0% | 2.9% | 0.0% | 6.6% | 14.2% | 6.2% |
| Bihar | 4.0% | 0.9% | 52.3% | 6.2% | 2.5% | 8.1% | 0.0% | 6.5% | 13.4% | 6.1% |
| Chhatisgarh | 17.5% | 5.3% | 16.4% | 20.0% | 2.1% | 6.2% | 0.0% | 1.3% | 2.2% | 29.0% |
| Goa | 27.3% | 4.4% | 0.7% | 24.7% | 0.2% | 0.9% | 0.0% | 1.8% | 4.3% | 35.7% |
| Gujarat | 7.9% | 6.7% | 15.2% | 8.9% | 3.6% | 5.2% | 0.0% | 4.2% | 3.7% | 44.6% |
| Haryana | 3.2% | 5.7% | 32.3% | 3.7% | 2.9% | 1.4% | 0.0% | 3.0% | 41.2% | 6.7% |
| Jharkhand | 8.9% | 2.8% | 23.2% | 17.3% | 3.6% | 10.7% | 0.0% | 5.0% | 18.5% | 10.3% |
| Madhya Pradesh | 2.0% | 2.4% | 47.8% | 29.2% | 3.0% | 5.8% | 0.0% | 4.6% | NA | 5.1% |
| Odisha | 10.5% | 4.8% | 0.1% | 24.9% | 10.4% | 8.5% | 0.0% | 4.7% | 14.5% | 21.6% |
| Telangana | 5.4% | 3.1% | 26.8% | 9.3% | 1.2% | 0.4% | 0.0% | 3.8% | 18.3% | 31.8% |
| Uttarakhand | 8.4% | 13.9% | 0.5% | 10.0% | 0.9% | 4.3% | 0.0% | 2.5% | 37.3% | 22.1% |

*Source: Demand for Grants, various states, RE refers to revised estimates*

*Note: Due to unavailability of demand for grant for 2024-25, 2025-26 for Madhya Pradesh for Social justice and disabled welfare department, social security is reported as NA (Not Available)*

**Table 4.2 : Subsidies per capita across states for key purposes (INR, 2022-23, 2023-24, 2024-25 (RE))**

| Purpose | Food | Insurance | Electricity | Financial assistance | Health-care | Housing | Loan Waiver | Scholar-ships | Social security | Others |
|---|---|---|---|---|---|---|---|---|---|---|
| Andhra Pradesh | 1313 | 636 | 2847 | 1930 | 77 | 184 | 534 | 576 | 3075 | 485 |
| Assam | 38 | 69 | 232 | 1000 | 35 | 294 | 0 | 38 | 161 | 263 |
| Himachal Pradesh | 331 | 46 | 1307 | 238 | 18 | 78 | 0 | 155 | 1505 | 1051 |
| Karnataka | 941 | 210 | 2962 | 2287 | 0 | 247 | 773 | 161 | 1431 | 1283 |
| Kerala | 553 | 11 | 155 | 233 | 266 | 223 | 0 | 193 | 33 | 269 |
| Maharashtra | 685 | 607 | 1112 | 1966 | 237 | 348 | 147 | 415 | 78 | 1419 |
| Punjab | 186 | 127 | 6697 | 148 | 82 | 41 | 0 | 170 | 1872 | 481 |
| Rajasthan | 110 | 179 | 3262 | 108 | 4 | 22 | 0 | 128 | 1302 | 265 |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Tamil Nadu | 1721 | 232 | 3844 | 250 | 0 | 259 | 524 | 106 | 0 | 1774 |
| Uttar Pradesh | 196 | 25 | 1317 | 81 | 131 | 101 | 132 | 168 | 288 | 415 |
| West Bengal | 860 | 365 | 248 | 2425 | 1 | 160 | 0 | 365 | 788 | 346 |
| Bihar | 1261 | 47 | 1114 | 132 | 53 | 175 | 0 | 138 | 286 | 130 |
| Chhattisgarh | 2773 | 655 | 2050 | 2496 | 263 | 768 | 0 | 166 | 270 | 3611 |
| Goa | 1897 | 387 | 66 | 2187 | 14 | 84 | 0 | 162 | 375 | 3152 |
| Gujarat | 1787 | 352 | 808 | 472 | 188 | 277 | 0 | 220 | 198 | 2350 |
| Haryana | 588 | 441 | 2513 | 286 | 223 | 110 | 0 | 234 | 3199 | 520 |
| Jharkhand | 966 | 141 | 1182 | 876 | 184 | 544 | 43 | 255 | 944 | 524 |
| Madhya Pradesh | 375 | 170 | 3319 | 2019 | 211 | 407 | 3 | 317 | 0 | 353 |
| Odisha | 2924 | 300 | 7 | 1571 | 660 | 537 | 0 | 295 | 912 | 1363 |
| Telangana | 559 | 471 | 4081 | 1411 | 182 | 60 | 2693 | 578 | 2776 | 4833 |
| Uttarakhand | 298 | 458 | 16 | 332 | 30 | 140 | 0 | 84 | 1230 | 730 |

*Source: Demand for Grants, various states and MoFHW, RE refers to revised estimates*
*Note: Due to unavailability of demand for grant for 2024-25, 2025-26 for Madhya Pradesh for Social justice and disabled welfare department, social security is reported as NA (Not Available)*

## 4.4 Off-budget subsidies

4.4.1 **Apart from on-budget subsidies discussed above, various states also provide off-budget subsidies through public sector entities, especially power distribution utilities**. In case of electricity distribution companies (DISCOMs), the off-budget subsidies could result in: (a) tariff subsidies billed by DISCOMs but not paid by state governments, and (b) revenue billed by DISCOMs not covering adequately all the costs, leading to losses for the DISCOMs. Continued accumulation of losses would result in a situation where state governments will have to provide budget support in future to maintain financial viability of the DISCOMs. As shown in Table 4.3, the aggregate loss of DISCOMs in the 21 states in 2023-24 was INR 33,310 crores, or 4.2 per cent of on-budget subsidies in these states in the year. This was high particularly in Tamil Nadu, Maharashtra, Rajasthan, Karnataka and Uttar Pradesh, Telangana, Jharkhand and Madhya Pradesh. When excluding regulatory income (i.e. income booked by DISCOMs but not actually received) and grants under UDAY loan takeover, the losses are bigger but have reduced in 2023-24. Other forms of off-budget subsidies can be in the transport sector (in case state transport corporations incur losses due to subsidies that are not adequately compensated from state government) or through other public sector companies used for providing certain subsidies. Based on review of available public data, these were not found to be significant in general but could be large in some select states.[14] (Annexure 5 shows financial information collected for transport corporations in the states).

**Table 4.3: Profits or losses of state DISCOMs, 2019-20 to 2023-24, INR Crores**

| States | 2019 - 20 | | 2022 - 23 | | 2023 - 24 | |
|---|---|---|---|---|---|---|
| | Profit/ (Loss) with Tariff Subsidy received | Profit/ (Loss) with Tariff Subsidy received excluding Regulatory Income and Revenue Grant under UDAY | Profit/ (Loss) with Tariff Subsidy received | Profit/ (Loss) with Tariff Subsidy received excluding Regulatory Income and Revenue Grant under | Profit/ (Loss) with Tariff Subsidy received | Profit/ (Loss) with Tariff Subsidy received excluding Regulatory Income and Revenue Grant under UDAY for loan takeover |

[14] In Andhra Pradesh, Off-budget borrowings of PSUs providing food, welfare spending, electricity, transport and housing have increased by INR 51,901 crores between 2019-20 to 2022-23. Similarly, in the case of Kerala, off-budget borrowings of Kerala Social Security Pension Limited were INR 11,733 crores as on 2022-23 which is an increase of INR 885 crores from 2020-21.

| | | for loan takeover | | UDAY for loan takeover | | |
|---|---|---|---|---|---|---|
| Tamil Nadu | -11965 | -16528 | -9192 | -9192 | -1196 | -1196 |
| Punjab | -975 | -975 | -1375 | -1375 | 1447 | 1447 |
| West Bengal | 511 | -1867 | 21 | -1663 | 94 | -946 |
| Assam | 1141 | 1141 | -800 | -800 | 389 | 389 |
| Himachal Pradesh | 43 | 43 | -1219 | -1219 | -567 | -567 |
| Kerala | -270 | -270 | -993 | -993 | 220 | 220 |
| Rajasthan | -2551 | -12277 | -2024 | -2024 | -3520 | -3520 |
| Andhra Pradesh | 1103 | 1103 | 4442 | -2269 | 186 | -2747 |
| Karnataka | -2594 | -2501 | -3209 | -2414 | -12881 | -10083 |
| Maharashtra | 2992 | -5011 | -3232 | -19846 | -5530 | -4892 |
| Uttar Pradesh | -3866 | -3866 | -17365 | -17365 | -7058 | -7058 |
| Bihar | -2913 | -2913 | -184 | -184 | 837 | 837 |
| Chhattisgarh | -571 | -571 | -1015 | -1015 | 900 | 900 |
| Goa | -276 | -276 | -242 | -242 | -572 | -572 |
| Gujarat | 314 | 314 | 147 | 147 | 4119 | 4119 |
| Haryana | 331 | 331 | 975 | 975 | 276 | 276 |
| Jharkhand | -1111 | -1111 | -3646 | -3646 | -2601 | -2601 |
| Madhya Pradesh | -5034 | -5034 | 1942 | 1942 | -1662 | -1662 |
| Odisha | -842 | -842 | 253 | 736 | 307 | -464 |
| Telangana | -6966 | -6966 | -11103 | -11103 | -6351 | -6351 |
| Uttarakhand | -577 | -323 | -1224 | -1224 | -147 | -147 |
| **Total of 21 States** | **-34076** | **-58399** | **-49043** | **-72774** | **-33310** | **-34618** |

*Source: Performance of power utilities, Power Finance Corporation of India, various years*

# 5 Analysis of subsidies and transfers

## 5.1 Review of subsidies and transfers

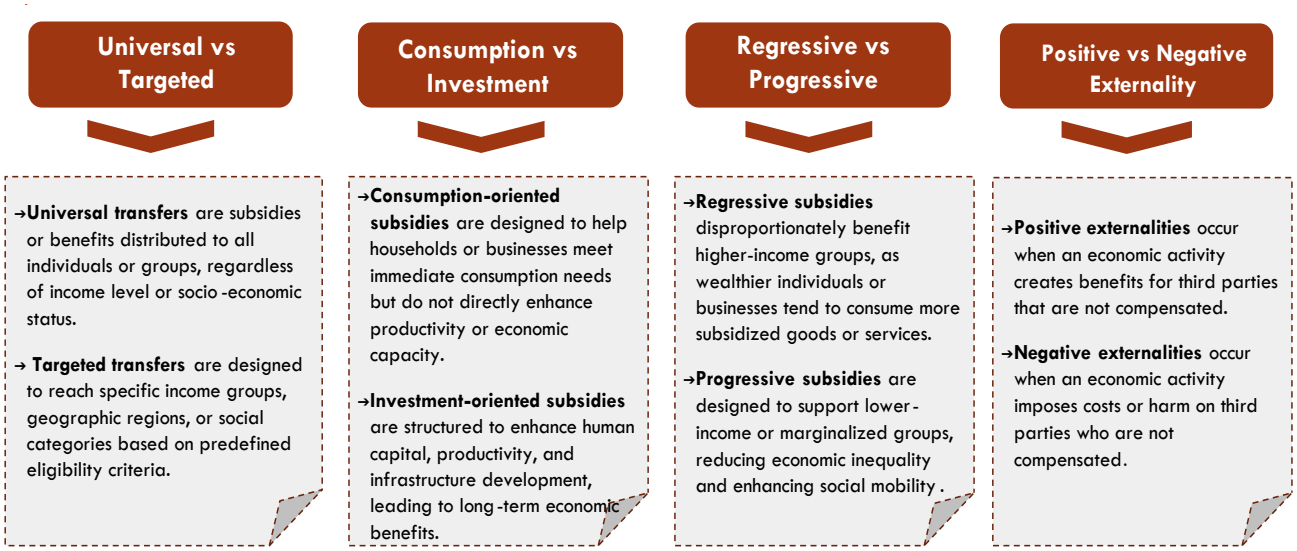
5.1.1 **While subsidies and transfers are a critical component of government expenditure and serve as an instrument to achieve desired socioeconomic outcomes, their effectiveness and efficiency has come under greater scrutiny in recent years**. This has largely been on account of the increasing share of subsidies and transfers in total expenditure for most state governments and also a debate on whether subsidies have been able to achieve their desired outcomes.

5.1.2 **To review the quality of subsidies, it is important to distinguish schemes by purpose and between inequitable and equitable subsidies**. These merit a deeper understanding of the purpose of these subsidies, how they are allocated, and whether there are major differences between intended and actual beneficiaries. Inequitable subsidies tend to benefit higher-income groups disproportionately. These include universal subsidies that are often regressive due to being consumed more by wealthier households. For example, universal electricity subsidies tend to benefit large landholders and affluent households more who consume more electricity. Conversely, equitable subsidies explicitly focus on supporting lower-income and vulnerable groups. Examples include Direct Benefit Transfers (DBTs), which provide Aadhaar-linked targeted assistance for LPG, food grains, and pensions, ensuring subsidies reach the intended lower-income beneficiaries effectively. Education-focused subsidies, like the Mid-Day Meal Scheme, directly address nutrition and educational equity, ensuring disadvantaged children benefit from such subsidies.

*Analytical framework for review of subsidies and transfers*

5.1.3 **This study reviews the subsidies and transfers using an analytical framework based on four key criteria**: universal vs. targeted transfers, consumption vs. investment-oriented subsidies, progressive vs. regressive impacts, and positive vs. negative externalities as shown in 52.

**Figure 5.1: Analytical framework for review of subsidies**



5.1.4 **Universal vs targeted benefits:** Universal benefits are provided to all individuals or households, regardless of their socio-economic status, income levels, or vulnerability while targeted benefits are directed at specific groups based on well-defined eligibility criteria. While universal schemes are inclusive and simpler to administer, as they avoid the complexities of identifying and verifying beneficiaries, they often lead to inequitable outcomes, with a significant share of benefits captured by the well-off who consume more of subsidized services. Targeted approaches aim to improve efficiency and equity by ensuring that limited public resources reach those most in need. For instance, transfers to farmers could be to all or most farmers or could be targeted to small and marginal farmers based on their landholdings.

5.1.5 **Consumption vs investment-oriented subsidies and transfers**: Consumption subsidies support immediate needs, often by reducing cost of essential goods and services or recurring transfers. These subsidies aim to enhance affordability and access but may not contribute directly to long-term economic growth. Examples are DBT program providing monthly cash transfer to women from economically weaker section; food subsidies under the National Food Security Act (NFSA), which ensure subsidized grains to poor people; and subsidized cooking gas through the Pradhan Mantri Ujjwala Yojana (PMUY). Investment-oriented subsidies add to capital formation technology, or sectors that drive economic progress. Capital investment subsidies in renewable energy, like those under the PM-KUSUM scheme (which promotes solar-powered irrigation); subsidies for drip irrigation in Maharashtra; and e-vehicle subsidies also qualify as investment-oriented subsidies.

5.1.6 **Progressive vs Regressive subsidies and transfers**: Especially for subsidies focusing on redistribution or protection of vulnerable groups, progressive subsidies are crucial to promote efficiency and reduce leakages. For example, the Mid-Day Meal schemes target school going children, especially from poor households, ensuring nutritional security and promoting education. On the other hand, in case of regressive subsidies, a significant proportion of benefit higher income groups. These subsidies, although typically universal in nature, can widen inequality. For instance, electricity subsidies tend to favor wealthier households who use more electricity.

5.1.7 **Positive vs negative externalities**. Positive externalities arise when a subsidy not only benefits the direct recipient but also generates wider social advantages that are not captured in market transactions. Often subsidies are aimed at addressing market failures, for example, promoting merit consumption of certain goods and services. Subsidies for health sector, such as Ayushman Bharat, improve health, reduce disease transmission, and lessen long-term healthcare costs. Conversely, negative externalities occur when subsidies lead to overuse or misallocation of resources, causing broader harm. These are typically linked to regressive subsidies, which disproportionately benefit wealthier groups and often promote inefficient consumption. For example, electricity subsidies for agriculture have sometimes contributed to groundwater depletion due to over-irrigation, harming environmental sustainability and long-term agricultural resilience. In such cases, review of subsidies should consider not just the fiscal cost but also broader social cost.

## 5.2 Review of specific subsidies and transfers by key purposes

5.2.1 **Electricity Subsidy**: Electricity subsidies paid from state budgets can be about 0.8 of GSDP for the states covered in the study. This represents explicit subsidies provided to specific beneficiaries and also gap in revenues and costs of electricity distribution

companies (DISCOM) resulting from their inefficiencies or regulatory deficiencies. The actual subsidies can be much larger after including the off-budget subsidies such as cross subsidy, which implies higher tariff for industrial and commercial categories (as compared to cost of supply) so that tariff of categories such as domestic and agricultural may be kept lower than the cost of supply or un-recovered revenue gap in books of DISCOMs.

5.2.2 **Governments often provide subsidies on electricity to make it more affordable for households and businesses**. As per Section 65 of Electricity Act, 2003 state governments may provide subsidy to any consumer category to reduce their tariff as determined by respective State Electricity Regulatory Commissions (SERCs) by paying such subsidy in advance and in manner as determined by the SERC. There are multiple modalities of declaring such tariff subsidy by state government, such as reducing the cost per unit of electricity, offering lower rates for basic consumption levels, or providing free electricity to specific groups like low-income households or marginalized communities or farmers. Further, multiple state governments subsidize electricity tariff in a particular sub-region (for example Vidarbha in Maharashtra and Chambal in Madhya Pradesh) to promote industrialization in backward regions. The goal is to ensure that everyone has access to essential energy services, which can help improve living standards, support economic activities, and promote social equity. However, often such tariff subsidies are also provided for political reasons.

5.2.3 **Subsidies are also necessary to ensure viabilities of DISCOMS.** Further, multiple state governments (eg: Jharkhand, Bihar) also provide resource gap funding to power distribution utilities due to lower tariff determination by SERC vis-à-vis their actual cost of supply. The lower tariff determination may be due to irregular/delays in revision of tariff by SERCs, disallowance of cost incurred due to inefficient operational norms, creation of regulatory assets or simply due to wrong estimation/projection of actual cost of distribution licensees by respective SERCs. These factors lead to revenue shortfall for DISCOMs, and they are unable to make payment to the power generators. Lately, central government has notified stringent norms for reducing payable amount to generators by DISCOMs, and banks have decided to limit their exposure to the power sector; hence they are left with no alternative other than to fund their losses by taking grant or equity from state government.

5.2.4 **Key consideration for allocating budget towards consumption subsidy and capital subsidy**. While a large percentage of electricity subsidies are consumption oriented, some subsidies are investment oriented. During previous decade India has been able to achieve universal electrification by offering complete subsidy for providing electricity connection to rural households under schemes such as Deen Dayal Upadhyay Gram Jyoti Yojna (DDUGJY) and SAUBHAGYA. Even now there are multiple scenarios in which capital subsidies are more effective and economical than consumption-based subsidies. Central government is currently offering subsidy under PM Surya Ghar Muft Bijli Yojna for installation of roof-top solar panels or provided for off-grid solar operated pumps to farmers under state or central sponsored schemes (such as ‘Component-B’ of PM-KUSUM or ‘Magel Tyala Saur Krushi Pump Yojana’ in Maharashtra). Maharashtra, in-fact has decided to release all new electricity connection for agricultural usage on off grid solar mode. Generally, consumer categories having lower tariff and/or lower collection efficiency are best suited for these kinds of capital subsidy as DISCOMs save costly power purchase to cater to these consumers while not getting adequate revenue in return.

5.2.5 **Capital subsidy for capital expenditure and to power generators also leads to tariff consumption**. Central government has also designed schemes where large amount of

grants towards capital expenditure have been provided to state DISCOMs on achieving pre-decided reform milestones and efficiency levels. This encourages DISCOMs to carry out intended reform measures and achieve target efficiency to become eligible for the grant. Recently launched Result-linked Reform Oriented 'Revamped Distribution Sector Scheme' (RDSS) is an good example of the same.

5.2.6 **Variation in states' approach towards electricity subsidies provides lesson for peer learning on how to design subsidy structure and target beneficiaries**. While a majority of electricity subsidies are consumption oriented, some subsidies are investment oriented, such as subsidy for installation of roof-top solar panels. Another key issue is targeting of the subsidies. As shown in Table 5.1 and Figure 5.3, Tamil Nadu, Punjab, Karnataka, and Rajasthan provide high per-capita electricity subsidy, and these states also provide free electricity to larger set of households, including those with relatively higher incomes. This makes the subsidy somewhat regressive as they disproportionately benefit households with higher consumption levels. On the other hand, Kerala, Goa, Odisha, Uttarakhand, Maharashtra, West Bengal, Uttar Pradesh, and Assam provide relatively targeted access to electricity such as providing support to specific groups such as SC/ST or substantially reduced support to ensure self-selection (consumers with less than 25 units per month). These are targeted and have a design that allows them to support an improved quality of life of vulnerable populations with relatively less fiscal impact.

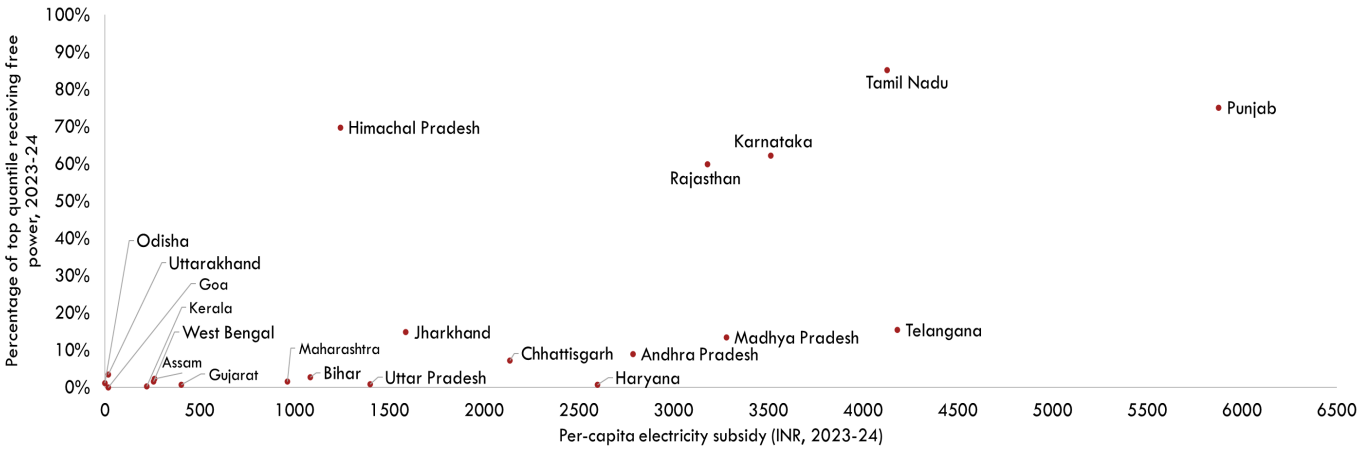
**Table 5.1: Quantiles of households receiving free electricity (Per cent)**

| State | Per cent of households receiving free electricity 2023-24 | | | | |
|---|---|---|---|---|---|
| | Q1 | Q2 | Q3 | Q4 | Q5 |
| | (110 - 3110) | (3110 – 4070) | (4070 - 5282) | (5282 – 7389) | (>7389) |
| Tamil Nadu | 89 | 90 | 92 | 93 | 85 |
| Punjab | 93 | 88 | 90 | 84 | 75 |
| Himachal Pradesh | 85 | 84 | 80 | 74 | 70 |
| Kerala | 0 | 1 | 0 | 0 | 0 |
| Karnataka | 91 | 91 | 92 | 88 | 62 |
| West Bengal | 10 | 7 | 6 | 3 | 2 |
| Andhra Pradesh | 25 | 20 | 19 | 15 | 9 |
| Assam | 1 | 2 | 3 | 2 | 2 |
| Maharashtra | 1 | 1 | 1 | 1 | 2 |
| Uttar Pradesh | 2 | 2 | 2 | 2 | 1 |
| Rajasthan | 84 | 82 | 83 | 78 | 60 |
| Bihar | 1 | 2 | 2 | 2 | 3 |
| Chhattisgarh | 4 | 3 | 4 | 4 | 7 |
| Goa | 0 | 2 | 0 | 0 | 0 |
| Gujarat | 2 | 1 | 0 | 1 | 1 |
| Haryana | 0 | 1 | 2 | 1 | 1 |
| Jharkhand | 50 | 51 | 46 | 31 | 15 |
| Madhya Pradesh | 39 | 47 | 40 | 30 | 13 |
| Odisha | 2 | 1 | 1 | 1 | 1 |
| Telangana | 22 | 21 | 27 | 29 | 15 |
| Uttarakhand | 1 | 1 | 2 | 1 | 3 |

*Source: Household Consumption Expenditure Survey, 2023-24, MOSPI;*

*Note: MPCE quantiles are calculated at national level for comparability across states*

**Figure 5.3: Progressive Vs Regressive: Quantiles of households receiving free electricity and link with per capita electricity subsidy expenditure**




*Source: Household Consumption Expenditure Survey, 2023-24, MOSPI and Demand for Grants respective state governments,*
*Note: The MPCE Quantiles for the above figure are calculated at the National Level.*

**Box 5.1: Subsidy reforms in the power sector**

At all India level, PM Surya Ghar Muft Bijli Yojana was launched in 2024 to promote use of solar power among households and achieve energy self-sufficiency. The scheme intends to benefit one crore households, free electricity upto 300 units on a monthly basis, and subsidized availability of solar panels. Several states, including Gujarat, Assam, Karnataka and Maharashtra, have also introduced several reforms in the power sector to manage subsidies and ensure the sector's financial sustainability. Reform measures **like feeder separation, smart metering, improving collection efficiency, and process improvements have proven effective in reducing losses and improving revenue generation**.

**Gujarat**

Gujarat has undertaken significant power sector reforms to enhance **efficiency, reliability, and financial sustainability**. As an example, the state launched the Jyoti Gram Yojana (JGY) in 2003, which played a crucial role in segregating 11 kV feeders to streamline power distribution between agricultural and non-agricultural consumers. Supported by 90 per cent government funding and 10 per cent contribution from villagers, this initiative successfully covered 17,839 villages, improving operational efficiency and service reliability across rural Gujarat.

To further strengthen Gujarat's energy infrastructure, the government introduced the **Suryashakti Kisan Yojana (SKY)** scheme in July 2018 to enhance solar energy adoption among farmers. Before SKY, agricultural power consumption accounted for 21.46 per cent of Gujarat's total electricity usage in 2017-18, yet contributed less than 5% of revenue, necessitating significant subsidies. SKY enabled the installation of grid-tied photovoltaic systems on farmlands, with a funding model of 5% farmer contribution, 30% subsidies from both State and Central governments, and 35 per cent financed through loans. Farmers benefited from reliable grid-quality power for 8 hours daily, while surplus solar energy was sold at INR 7 per kWh, ensuring additional income and long-term energy security. After seven years, farmers gained full ownership of the systems, making the scheme a transformational step toward sustainable power distribution and reduced subsidy dependency.

In addition to feeder segregation and solar energy integration, Gujarat also modernized its metering infrastructure, transitioning from mechanical meters to electronic meters. Smart metering has been instrumental in eliminating manual errors, detecting power theft, and minimizing unauthorized consumption, thereby improving the financial health of power distribution companies. Furthermore, the deployment of High Voltage Distribution Systems (HVDS) has reduced transmission losses, optimizing power supply management. These efforts have lowered Aggregate Technical & Commercial (AT&C) losses to nearly 55 per cent below the national average, reinforcing financial stability and operational efficiency in the sector.

To enhance collection efficiency, the Gujarat Urja Vikas Nigam Limited (GUVNL) adopted centralized financial management, optimizing electricity billing and revenue distribution. Under this system, consumers pay their bills to DISCOMs, which then transfer funds to GUVNL, ensuring systematic financial allocation to power suppliers. Additionally, rebates and subsidies are streamlined, securing stable cash flows and sustainability in the sector.

The state has also made significant investments in Advanced Distribution Management Systems (ADMS) and Smart Grid technologies, improving real-time monitoring and operational responsiveness. These technological advancements have enhanced efficiency, optimized energy distribution, and strengthened Gujarat's power infrastructure.

**Maharashtra**

In the case of Maharashtra, one of the most impactful power sector initiatives has been the implementation of a rural feeder separation program, supported by the Revamped Distribution Sector Scheme (RDSS). The project was aimed at reducing load shedding in rural areas by ensuring better demand-side management for agricultural loads. The introduction of SCADA-based monitoring further enhanced distribution transformer failure response, leading to improved service reliability across the state. To reduce losses, Maharashtra has focused on energy audits at both distribution transformer (DT) and feeder levels, complemented by mass meter replacements and tamper-proof meter installations. Additionally, anti-theft mobile squads have been deployed in high-loss zones, reinforcing efforts to curb electricity theft.

**Assam**

Assam has also implemented several strategic interventions in its power sector, most notable among them being the widespread rollout of **smart meters** under the **Revamped Distribution Sector Scheme (RDSS).** The installation of smart meters has significantly enhanced billing transparency, minimized theft, and empowered consumers with real-time insights into their energy usage. Assam also focused on the diversification of energy sources through integration of renewable energy through joint ventures such as APDCL–NLC and APDCL–SJVN Green, which have established grid-connected solar parks across the state.

**Karnataka**

Karnataka has adopted comprehensive strategies to improve financial health and operational efficiencies in its power sector. In 2016, the state signed the Ujwal DISCOM Assurance Yojana (UDAY) MoU to restructure debts and implement loss-reduction initiatives. The Karnataka Electricity Regulatory Commission (KERC) introduced a performance-based cost recovery model, which incentivizes DISCOMs that reduce losses below set targets while penalizing those that exceed allowable thresholds. Furthermore, BESCOM, Karnataka's largest DISCOM, implemented India's first full-fledged Smart Grid Pilot in the Doddaballapur subdivision, allowing real-time outage detection and load forecasting. Over two years, AT&C losses in the pilot area declined significantly due to integration with SCADA and Outage Management Systems, improving grid reliability indicators such as SAIFI and SAIDI.

### Box 5.2: Electricity subsidy and reforms in select countries

Many countries have successfully rationalized electricity subsidies by adopting models that are more efficient, equitable and fiscally sustainable. Their experience shows that well-designed reforms rooted in effective targeting and transparency can achieve better welfare outcomes at a lower fiscal cost.

Between 2012 and 2020, Indonesia introduced a tariff adjustment mechanism linked to global energy prices and over the years has improved targeting these subsidies exclusively to low-income groups using a national social household registry database. As a result, subsidy spending declined from 1.5% of GDP in 2012 to 0.5% of GDP in 2020. Similarly, Egypt implemented a multi-year electricity tariff reform plan from 2014 to 2019 aided by improved cost recovery and phasing out of cross-subsidization. This supported a decline in subsidies from 3% of GDP to below 1% of GDP in 2019.

Vietnam adopted block tariff pricing, where initial consumption blocks are subsidized but higher usage is charged progressively. This ensures affordability without blanket price support. Countries such as Mexico and Brazil have replaced broad-based energy and food subsidies with income-linked conditional cash transfer (CCT) frameworks, enabling wider and targeted coverage of poor households while reducing fiscal outlays.

#### Table 5.2: International Comparison of Subsidies and Reform Outcomes

| Country | Subsidy (% of GDP, Latest) | Year of Estimate | Reform Type | Period of Reform | Notable Outcome |
|---|---|---|---|---|---|
| Indonesia | 0.5 | 2020 | Tariff adjustment + targeted transfers | 2012–2020 | Subsidy share fell from 1.5% to 0.5% |
| Egypt | 0.9 | 2019 | Multi-year tariff restructuring | 2014–2019 | Subsidies fell from 3% to under 1% |
| Vietnam | 0.6 | 2023 | Block tariff structure | 2010–present | More equitable distribution, limited fiscal cost |
| Mexico | 0.4 | 2023 | Conditional cash transfers (CCTs) | 2000s–present | Low-cost, high impact targeting |
| Brazil | 0.6 | 2023 | CCT replacing generalized price subsidies including energy | 2003–present | Sustained poverty reduction with low fiscal burden |

*Note 1: Subsidy estimates are expressed as a percentage of GDP for the latest available year. Subsidy estimates are based on various publicly available sources and may reflect differing estimation methods.*

*Note 2: Indonesia's figures reflect the outcome of targeted fuel and electricity subsidy reforms implemented between 2012 and 2020, based on IMF (2020) and Indonesia Ministry of Finance budget documentation. For Egypt, the estimate reflects the impacts of multi-year electricity tariff reforms supported by the World Bank (2018) and documented in the Egyptian Electricity Holding Company Annual Report (2020). In Vietnam, subsidy values are based on block tariff reforms and public electricity pricing frameworks, as reported by the World Bank (2018). For Mexico and Brazil, the estimates refer to the fiscal effects of replacing generalized energy subsidies with targeted social programs, including conditional cash transfers (CCTs), as documented by Fiszbein and Schady (2009) and Barroso and Rudnick (2015).*

Transparency has also played a critical role—regular publication of benefit incidence by income group, along with comprehensive reporting of both on- and off-budget subsidy costs, has helped strengthen public accountability. Moreover, the use of digital tools to improve beneficiary identification—such as Indonesia's social household registry and Mexico's centralized databases—highlight the importance of administrative reform in enabling fiscal consolidation.

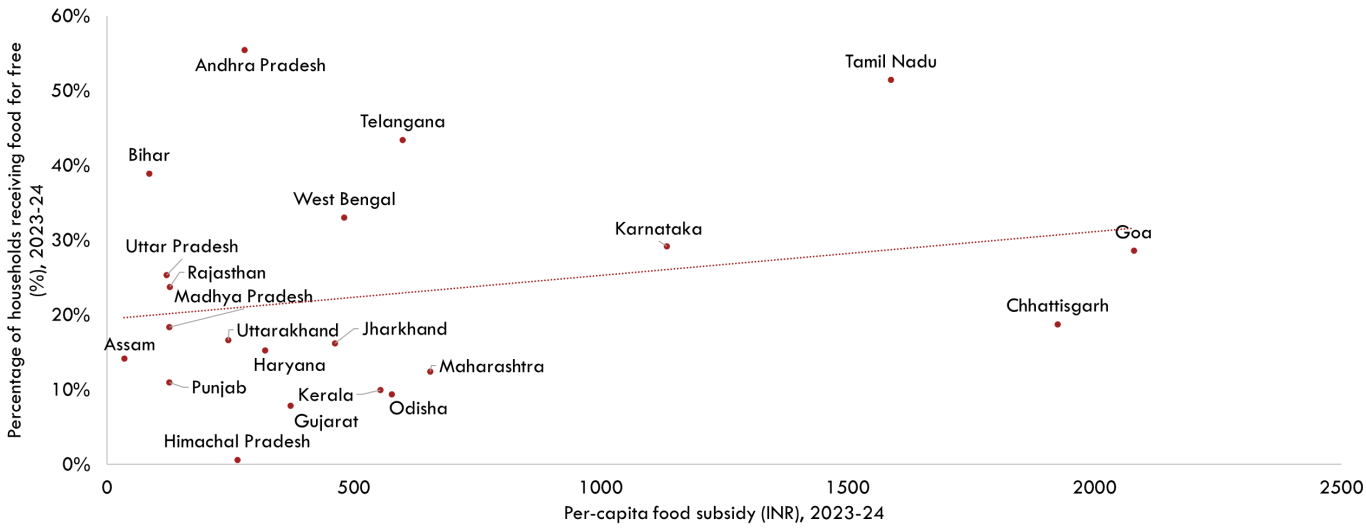
5.2.7 **Food**: The food subsidy schemes address critical nutritional needs through targeted interventions, demonstrating efficient government expenditure aimed to support vulnerable population. The National Food Security Act (NFSA) provides for subsidized food upto 5 kilograms per eligible person per month at subsidized prices which was further extended to free foodgrains through the Pradhan Mantri Garib Kalyan Yojana. Further states also have state specific schemes for food subsidy. But there are wide differences in per-capita food subsidy given the coverage, extent of subsidy and implementation, and potentially from households opting out of subsidized food through public distribution system and opting for food from market. Tamil Nadu provides 5 kg of rice per person per month, 5 kg of wheat per person per month in areas other than Chennai and District HQ (where it is 10 kg), Tur dal at 1 kg per ration card per month etc. at no cost to all ration card holders. On the other hand, Maharashtra's ration subsidies provide essential staples like wheat and rice at subsidized rates of Rs 2 per Kg and Rs 3 per Kg respectively to ration card holders, ensuring basic food security. West Bengal's MAA Scheme, operating 249 canteens in urban areas, offers subsidized meals at Rs 5 per meal to poor and needy citizens, effectively targeting consumption needs and benefiting over a million individuals, embodying a positive design.

**Table 5.3: Quantiles of households receiving free food (Per cent)**

| Per cent of HH received at least one food item free 2023-24 (across consumption quantiles) | | | | | |
|---|---|---|---|---|---|
| **State** | **Q1 (110-3110)** | **Q2 (3110-4070)** | **Q3 (4070-5282)** | **Q4 (5282-7389)** | **Q5 (>7389)** |
| Himachal Pradesh | 11.4 | 10.5 | 8.1 | 4.3 | 0.6 |
| Punjab | 40.0 | 34.9 | 33.9 | 26.0 | 11.0 |
| Rajasthan | 80.9 | 72.4 | 64.1 | 51.6 | 23.7 |
| Uttar Pradesh | 87.8 | 82.8 | 73.8 | 56.6 | 25.4 |
| Assam | 27.4 | 26.0 | 21.7 | 22.2 | 14.2 |
| West Bengal | 97.9 | 95.6 | 90.5 | 71.6 | 33.0 |
| Maharashtra | 67.4 | 67.0 | 56.4 | 35.0 | 12.4 |
| Andhra Pradesh | 63.0 | 85.7 | 82.1 | 78.6 | 55.4 |
| Karnataka | 88.0 | 85.9 | 80.5 | 70.6 | 29.2 |
| Kerala | 30.2 | 24.5 | 19.4 | 16.0 | 10.0 |
| Tamil Nadu | 77.2 | 87.3 | 82.7 | 76.7 | 51.4 |
| Bihar | 79.6 | 78.5 | 71.6 | 61.7 | 38.9 |
| Chhattisgarh | 95.1 | 91.1 | 81.1 | 59.5 | 18.8 |
| Goa | 29.8 | 54.4 | 57.5 | 35.3 | 28.6 |
| Gujarat | 66.7 | 57.2 | 43.5 | 26.2 | 7.9 |
| Haryana | 81.4 | 73.4 | 59 | 41.5 | 15.2 |
| Jharkhand | 60.2 | 66.4 | 57.6 | 38.5 | 16.2 |
| Madhya Pradesh | 75.8 | 67.2 | 55 | 37.6 | 18.4 |
| Odisha | 46.9 | 56.5 | 44.8 | 29 | 9.4 |
| Telangana | 88.7 | 91.7 | 85.5 | 80.3 | 43.4 |
| Uttarakhand | 69.6 | 69.9 | 59 | 42.5 | 16.7 |
| All India | 76.6 | 74.0 | 65.2 | 52.0 | 26.2 |

*Source: Household Consumption Expenditure Survey, 2023-24, MOSPI*
*Note: 1) Food item includes rice, wheat, coarse grains, pulses, salt, sugar, and edible oil. 2) MPCE quantiles are calculated at national level for comparability across states*

**Figure 5.4: Food subsidy per capita and % household in top quantile receiving free food (2023-24)**




*Source: Household Consumption Expenditure Survey, 2023-24, MOSPI and Demand for Grants respective state governments*

5.2.8 **The share of households receiving at least one free food item varies considerably across states**, as seen in Table 5.3. The free food could be from the central or state schemes. In Figure 5.4, a positive trend is observed between state subsidy expenditure and highest quantile of households receiving free food. Tamil Nadu stands out for its substantial subsidies and extensive household coverage. Conversely, states like Assam, Punjab, Himachal Pradesh, Uttarakhand, Madhya Pradesh, Haryana and Kerala allocate lower subsidies, resulting in limited access to free food items.

**Box 5.3: Case Study for Food Subsidy**

**Amma Unavagam (Amma Canteen) in Tamil Nadu**

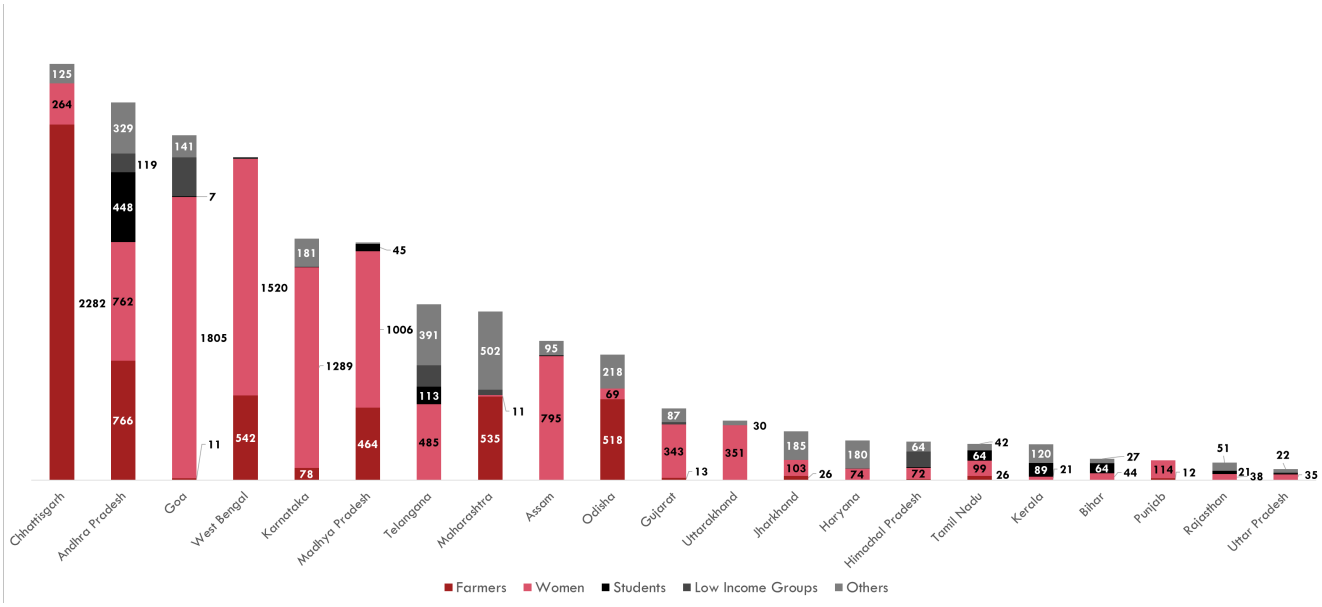
The Tamil Nadu government's food subsidy initiatives, namely the Amma Unavagam (Amma Canteen) provide substantial benefits to low-income communities. The Amma Canteens offer highly subsidized nutritious meals to the urban poor, including daily wage workers and migrant laborers, at nominal prices (e.g., idlis for Rs 1).

This program ensures food security and reduces malnutrition and financial stress for low-income families.

5.2.9 **Financial assistance**: Financial assistance schemes are designed to provide cash transfers to individuals and families to improve/sustain their living standards. Over time, the financial assistance has grown in size especially with availability of DBT-Aadhaar mechanism. This includes near universal transfers to women and farmers, such as through Orunodoi in Assam and PM-Kisan Samman Nidhi respectively. Some states offer targeted financial assistance and can be one-time (like assistance with marriage related expenditures) or recurring and universal for a beneficiary group (like financial assistance to farmers and women). Financial assistance schemes often target low-income groups, offering temporary relief to alleviate financial burdens imposed by specific economic hardships. For example, the Sahara Scheme in Himachal Pradesh offers monthly assistance to economically weaker sections affected by specific diseases and represents a targeted approach by directly supporting these vulnerable groups. The marriage assistance in Himachal Pradesh targets SC, ST, OBC, and BPL categories. The Annadata Sukhibhava

in Andhra Pradesh provides Rs. 14,000 annually to farmer families, conditional on use of extension services, integrated farming and other livelihood improvement initiatives.

**Figure 5.5: Financial assistance per capita by beneficiary across states – (2022-23, 2023-24 average)**




*Source: Demand for grants for states and MoFHW. Note:1) For Andhra Pradesh students category includes financial assistance given to students as well as to students, drivers, fishermen and women category includes financial assistance given to women as well as to women, drivers, fishermen. 2) Others include financial assistance given to SC/ST, natural calamity victims, PwD, destitutes and patients etc.*

**Box 5.4: Study of Good Practices in Cash Transfers**

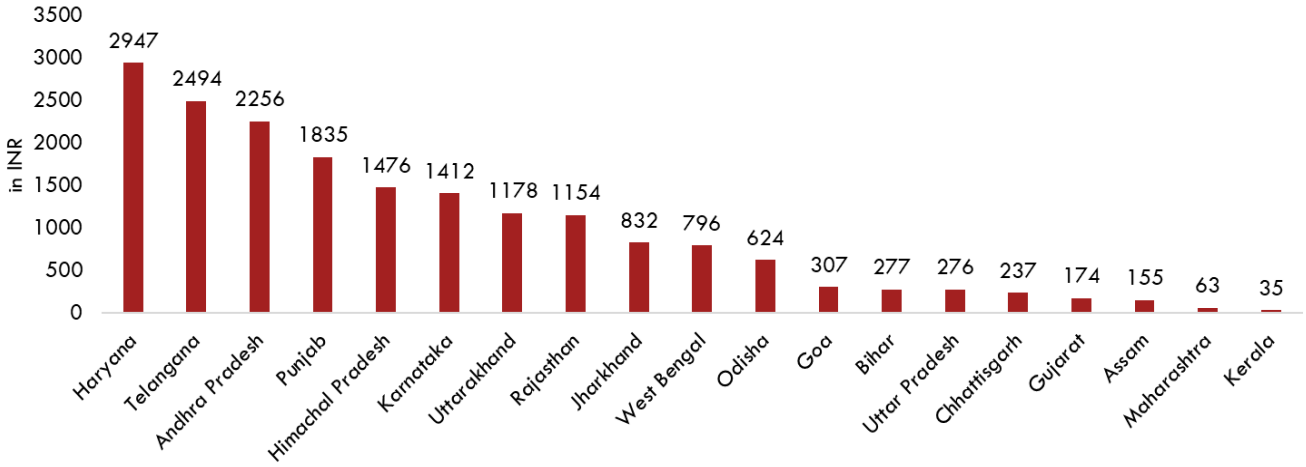
Key features of cash transfers schemes for women are reviewed for three major schemes— Subhadra Yojana in Odisha and Ladki Bahin Yojana in Maharashtra—to highlight good practices in terms of four aspects: (i) size of subsidy, (ii) the use of sunset clauses, (iii) effective targeting (iii) size of subsidies and (iv) delivery modality. The key takeaways are summarized below.

| Aspect | Key features across schemes |
|---|---|
| Size of the Subsidies | The size of subsidies varies significantly across states: Odisha offers Rs. 50,000 distributed over five years (i.e. annual average of Rs 10,000) and Maharashtra provides Rs 18,000 annually (Rs. 1,500 per month). Such differences indicate diverse fiscal strategies and priorities, reflecting how each state assesses its economic capacity and policy objectives. Balancing subsidy size with fiscal stability is fundamental; states must consider long-term economic impacts while ensuring that subsidies are sufficient to provide meaningful support. |
| Sunset Clause | Odisha's Subhadra Yojana includes a sunset clause, with allocation of Rs. 50,000 to eligible women in installments over a five-year period (2024-25 to 2028-29). This time-bound assistance ensures the beneficiaries receive timely financial support, allowing policymakers to periodically reevaluate the program's effectiveness and fiscal impact. |
| Effective Targeting (through de-duplication of benefits) | In Odisha, the scheme excludes women who receive financial assistance amounting to Rs. 1,500 per month or Rs. 18,000 annually such as pensions or scholarships under any State or Central Government scheme. For those receiving less than this threshold, Odisha provides the entire benefits.<br><br>The scheme by Maharashtra has an additional provision wherein women who receive less than Rs. 1,500 per month from other state/central government schemes receive only the difference needed to elevate their monthly benefits to a total of Rs. 1,500, as opposed to the entire amount. This approach allows Maharashtra to efficiently allocate resources by supplementing existing support rather than duplicating benefits. |
| Delivery Modality | All three states deliver cash transfers through streamlined direct benefit transfers (DBT), ensuring timely fund delivery while reducing costs and misallocations |

5.2.10 **Pension**: Governments often provide subsidies in the form of pensions to support the elderly and vulnerable populations, ensuring they have a stable source of income in their retirement years. These subsidies can take various forms, such as direct cash transfers, social security payments, or targeted pension schemes for specific groups like low-income seniors or marginalized communities. However, the design of these subsidies is crucial. A universal or large beneficiaries' group can dilute the per person benefits available and become more regressive by also including higher income beneficiaries. Targeted pension schemes aim to support those who need it most, enhancing the overall equity and efficiency of government expenditure. Some states provide such support in a more targeted manner like the Rs. 3,000 per month provided to freedom fighters in Kerala or Rs. 1,150 per month to females above 58 years and males above 60 years with annual income less than Rs. 48,000. On the other hand, some states provide wider benefits such as Rs. 4,000 per month

to old age population groups in Andhra Pradesh below specific income thresholds in rural and urban areas.

**Figure 5.6: Pension expenditure per capita by state – (2022-23, 2023-24 average)**




*Source: Demand for grants for states, MoFHW*

*Notes: Due to unavailability of demand for grant for 2024-25, 2025-26 for Madhya Pradesh for Social justice and disabled welfare department, pension is not shown in above graph.*

5.2.11 **Figure 5.6 shows there exists significant variations in per capita pension expenditure across different states in India for the year 2023**. Haryana, Telangana, Andhra Pradesh, Punjab, and Himachal Pradesh have higher per capita pension expenditures, indicating a significant allocation of resources towards subsidies on pensions and allowances.

5.2.12 **Transport subsidy:** Transport subsidy is provided in the form of free bus travel within or outside the State to different groups such as students, women, senior citizens, patients, handicapped, freedom fighters, and war widows. In most of the states, the benefit is targeted (such as for specific age groups or categories of persons) but in some states, the free transport is available to all women.

## 5.3 Good practices for subsidy reforms generally in India and internationally.

5.3.1 **Subsidy programs, when designed and implemented effectively, serve as critical tools for promoting social welfare, reducing poverty, and fostering economic development.** While specific examples of good practices for specific types of subsidies are discussed above, in the boxes below, we further discuss good practices for subsidies

reforms in general, both in India and internationally. These could be linked to conditional cash transfers, targeted welfare measures, or direct benefit mechanisms.

**Box 5.5: Good practices of subsidy and transfer rationalization**

Several subsidy schemes have been rolled back or phased out over the years by many state governments as part of measures to contain leakages, reduce inefficiencies and improve fiscal health. Below is a summary of some such schemes that have been rolled back or have seen reduction in scale. Use of DBT was particularly important in several such reforms.

| Scheme Name | Details | Reform and impact |
|---|---|---|
| Fertilizer Subsidy Rationalization in Andhra Pradesh15 | Initially, the state supplemented central fertilizer subsidies with its own funds to ensure universal access. In 2020, the strategy was streamlined by shifting subsidies to a DBT system, primarily targeting small and marginal farmers with landholdings of less than 5 acres. By introducing quantity restrictions based on landholding size, the scheme effectively curbed the overuse and diversion of fertilizers.<br>The adoption of real-time digital tracking further strengthened subsidy management by providing policymakers with timely data to make informed decisions. | DBT is considered the best practice due to its ability to significantly reduce leakages through targeted distribution. By connecting subsidies to Aadhaar-enabled accounts, DBT guarantees direct delivery to beneficiaries, reducing intermediaries and boosting transparency. Nations such as Brazil (Bolsa Familia) and Thailand (Universal Coverage Scheme) have effectively utilized centralized digital tracking systems to oversee and improve the efficiency of social spending (WHO, 2022). |
| Pradhan Mantri Ujjwala Yojana (Union Government) | In May 2016, Ministry of Petroleum and Natural Gas (MOPNG), introduced the 'Pradhan Mantri Ujjwala Yojana' (PMUY) as a flagship scheme with an objective to make clean cooking fuel such as LPG available to the rural and deprived households which were otherwise using traditional cooking fuels such as firewood, coal, cow-dung cakes etc. Usage of traditional cooking fuels had detrimental impacts on the health of rural women as well as on the environment. | The Government launched the 'Opt out of subsidy' scheme which is aimed at motivating LPG users who can afford to pay the market price for LPG, voluntarily surrender their LPG subsidy. Further, DBT was used to provide direct benefits. |

15 16

[15]https://www.fert.nic.in/dbt#:~:text=Status%20of%20DBT%20in%20Fertilizers:%20Sale%20of,been%20put%20on%20Go%2DLive%20mode%20w.e.f.%2001.09.

[16] https://pmuy.gov.in/docs/Opt_Out_of_Subsidy_for_mylpg_in.pdf

| Scheme Name | Details | Reform and impact |
|---|---|---|
| Household Electricity opt – in Scheme in Delhi | The Delhi government introduced the free electricity scheme in 2019. Under the scheme, people used to get a 100 per cent subsidy for consuming less than 200 units and a 50 per cent subsidy of up to Rs 800 for using up to 400 units in a month. | The state government has announced a new voluntary subsidy scheme (VSS) where it is mandatory for the people of Delhi to opt-in for the subsidy to continue getting electricity at subsidized rates beginning from October 1, 2022. The state government has announced a new voluntary subsidy scheme (VSS) where it is mandatory for the people of Delhi to opt-in for the subsidy to continue getting electricity at subsidized rates beginning from October 1, 2022. What this means is that subsidy on electricity will not be available by default, consumers will have to apply for it. |
| Rajasthan under Chief Minister Free Electricity Scheme in Rajasthan (17) | Government introduced a scheme providing up to 50 units of free electricity monthly for domestic consumers using up to 100 units, benefiting ~36 lakh households | In 2023, the Rajasthan Electricity Regulatory Commission (RERC) increased tariffs for higher consumption slabs (>100 units), effectively reducing subsidies for non-low-income households. The 50-unit free scheme was retained for BPL and small consumers but scaled back for others. |

17 18

### Box 5.6: Mexico's Conditional Cash Transfer Program

Mexico has emerged as a global leader in the implementation of conditional cash transfer (CCT) programs aimed at enhancing social welfare while maintaining fiscal discipline. In 1997, in response to ongoing challenges of poverty and inequality, the Mexican government initiated the Oportunidades program, which was later renamed Prospera. This CCT model was designed to provide direct financial support to low-income families, contingent upon meeting specific conditions related to educational attendance, health check-ups, and nutrition standards, as noted by the International Monetary Fund (IMF) in 2021.

Unlike traditional subsidy programs, which often suffer from fiscal leakages and inefficiencies, Prospera was structured to encourage the accumulation of human capital, promote gender equity, and reduce long-term reliance on subsidies, according to the World Bank in 2019. The program sought to address these issues by focusing on incentivizing behaviors and outcomes that would contribute to sustainable development, rather than merely providing financial assistance without accountability or conditions.

The implementation of Prospera included several best practices that enhanced the efficiency of subsidies and contributed to long-term development outcomes. For instance, the program offered targeted cash transfers linked to education and healthcare, where families received monthly financial aid contingent upon compliance with specific conditions such as regular school attendance for children, mandatory preventive healthcare check-ups, and participation in nutritional education programs to combat malnutrition, as highlighted by Parker and Todd in 2017. Additionally, Prospera introduced incentives for female education by offering higher cash transfer amounts for girls in secondary school, significantly increasing female school completion rates, particularly in rural areas, as reported by the IMF in 2021.

[17] https://rajnivesh.rajasthan.gov.in/Uploads/439584a2-fe8c-4a4e-8310-455686912d49.pdf

[18] https://www.bsesdelhi.com/documents/55701/1262556159/Subsidy_Scheme_Information.pdf

Another notable feature of the program was its use of data and impact assessments through rigorous monitoring and evaluation mechanisms, ensuring funds were allocated efficiently and benefits reached intended recipients, a practice emphasized by Levy in 2019. Overall, the program achieved remarkable success, reducing extreme poverty by nearly 20 percent within the first decade of implementation, increasing school enrollment rates, and maintaining fiscal sustainability, as documented by the World Bank in 2020 and the IMF in 2022.

Mexico's experience with Prospera highlights the critical importance of linking financial transfers to measurable social outcomes, particularly in areas such as education and healthcare. This approach offers valuable lessons for other countries, such as India, which could enhance their existing Direct Benefit Transfer (DBT) mechanisms by incorporating stronger conditionalities and performance tracking systems to ensure subsidy expenditures yield tangible developmental returns. In conclusion, while subsidies play a vital role in supporting economic and social welfare, their effectiveness hinges on efficient targeting, fiscal discipline, and robust governance mechanisms.

### Box 5.7: Indonesia’s Targeted Subsidy Reforms

For many years, Indonesia heavily depended on universal fuel subsidies, which consumed a significant portion of the national budget, primarily benefiting higher-income groups due to their greater fuel consumption. By the early 2000s, these subsidies accounted for over 20 percent of the national budget, limiting the funds available for essential areas like education, healthcare, and infrastructure (IEA, 2020). Recognizing the long-term fiscal risks and inefficiencies, the Indonesian government embarked on a series of gradual and targeted subsidy reform measures aimed at improving fiscal sustainability while safeguarding vulnerable populations.

The reform process in Indonesia was deliberate and multifaceted, focusing on redirecting resources from blanket subsidies to more targeted welfare programs. Key components of this approach included the phased reduction of universal fuel subsidies from 2005 to 2015, ensuring that low-income groups were cushioned through targeted cash transfers (IEA, 2019). Additionally, the government introduced Direct Benefit Transfers (DBTs) using a biometric identification system to ensure subsidies were allocated only to eligible recipients, similar to India's Aadhaar-linked DBT model (World Bank, 2020). The savings from these subsidy reductions were invested in human capital development, significantly enhancing education, healthcare, and social protection programs, which led to higher literacy rates, improved healthcare access, and expanded infrastructure (IMF, 2021).

Indonesia's subsidy reforms achieved substantial fiscal and social outcomes. The fiscal deficit was notably reduced as fuel subsidies decreased from 4 percent of GDP in 2010 to below 1 percent by 2020, allowing the government to reallocate resources to more productive expenditures (World Bank, 2022). The redirection of funds towards education and healthcare improved human capital indicators, especially in rural and underserved regions (ADB, 2023). Furthermore, the gradual removal of fuel price distortions enhanced energy efficiency, reduced smuggling, and improved private sector competitiveness (IEA, 2021).

Other countries can learn from these insights to transition from universal subsidies to targeted welfare measures. However, the motivations behind energy subsidies vary widely across countries, influencing their policy trajectories and reform feasibility. Many governments justify subsidies as temporary income buffering or due to the influence of lobbies and interest groups, making reform challenging. Resource-rich nations often view subsidies as a means of sharing national wealth, while others use them to support industrial competitiveness. Despite these varied motivations, the most common justification remains poverty alleviation, highlighting the political sensitivity of energy pricing. Indonesia’s example shows that subsidy rationalization is achievable through well-designed, gradual policies that minimize social and economic disruption, offering valuable lessons for countries navigating energy policy reform.

# 6 Policy recommendations

## 6.1 Policy recommendations for governments

6.1.1 **Based on the review of the trends and composition of expenditure by the central government and twenty one state governments the study puts forth some strategic policy recommendations to strengthen the quality of expenditure in India**. The recommendations draw on an analytical framework for assessing the efficiency and equity aspects of subsides and transfers, as well as successful national and international examples.

6.1.2 **Expanding Aadhar-linked DBT systems can significantly reduce leakage, duplication, and ensure that subsidies reach the intended beneficiaries efficiently**. By linking subsidies to Aadhar, the government can accurately identify and verify beneficiaries, minimizing the risk of fraud and ensuring that funds are delivered directly to eligible individuals. This approach enhances the accuracy of subsidy distribution, ensuring that public funds are used effectively.

6.1.3 **Conducting a review of subsidies schemes to remove duplication**. Conducting a comprehensive review of can help identify inefficiencies and eliminate redundant programs. Currently, multiple ministries oversee similar welfare schemes, leading to duplication and fiscal waste. Consolidating and streamlining these programs into a framework could enhance efficiency and reduce administrative overheads.

6.1.4 **Phasing out universal schemes in favor of stronger targeted schemes could improve efficiency and equity of the schemes**. Transitioning from universal subsidies toward income-based cash transfers can reduce fiscal pressures while maintaining social protection. Introducing stronger eligibility and targeting criteria for subsidy programs to ensure that subsidies are well-targeted and effective. Further, establishing clear eligibility criteria for all subsidy programs and discontinuation of unnecessary subsidies can prevent the wastage of public funds.

6.1.5 **Incorporate economic cost of subsidies and transfers beyond fiscal costs and targeting aspects in subsidy rationalization**. This can be achieved through a comprehensive evaluation of subsidies' impacts beyond direct budgetary implications. Economic costs can be incorporated by analyzing market price distortions, assessing resource allocation/misallocation, and accounting for externalities created by such subsidies. This will ensure a more holistic assessment of the associated cost of subsidies.

6.1.6 **Sunset clauses to ensure that subsidies automatically expire unless they are renewed after an evaluation process**. This mechanism compels the government and authorities to regularly assess the effectiveness and necessity of subsidies, ensuring that only those that continue to meet their intended objectives are extended.

6.1.7 **Enhance transparency and accountability in fiscal management through digitization and use of technology tools for real-time tracking**. These technologies provide real-time tracking and reporting of subsidy disbursements, reducing the risk of leakage and ensuring that subsidies are managed transparently and efficiently.

6.1.8 **Independent fiscal monitoring includes the systematic process of tracking, evaluating, and overseeing government expenditures, revenues, and overall financial health**. Conducting periodic fiscal audits by autonomous bodies can detect gaps and mismanagement if any and help in more fiscally sustainable practices. For example, the

Office for Budget Responsibility in the UK independently scrutinizes government fiscal policies, assessing public finances, and evaluating the government's performance against its fiscal targets.

6.1.9 **Performance-based subsidies like conditional cash transfers are financial incentives provided by the government that are explicitly linked to the achievement of specific performance outcomes**. Janani Suraksha Yojana scheme, aimed at reducing maternal and neonatal mortality, by providing cash transfer to women conditional on delivering at a public or accredited private health facility, is one such example. This approach ensures that subsidies are used efficiently and effectively to achieve tangible economic and social benefits. By aligning subsidies with measurable economic goals, this strategy ensures that public funds are used effectively to drive tangible benefits.

## 6.2 Policy recommendations for Sixteenth Finance Commission

6.2.1 **Recommendation to standardize definition and reporting of subsidies and transfers by center and states. There is no universally accepted definition of subsidies**. Definitions vary in terms of scope. It is crucial to have a standardized definition of subsidies for accurately capturing these and understanding their implications. An annual report on subsidies can be published by the CAG or the RBI detailing the trends of subsidies and its composition.

6.2.2 **Incentive-linked transfers to incentivize state governments to improve quality of expenditure**. The incentives can be designed to target overall improvement in fiscal health of states such as improvement in revenue deficit, which could also incentivize states towards subsidy rationalization. Further the 16$^{th}$ FC could focus on specific large subsidies such as electricity subsidy through incentivization of power sector reforms to reduce power sector losses. Financial assistance schemes are also an important and rising component of subsidies, and the 16$^{th}$ FC may recommend that the transfers are linked to fiscal capacity and fiscal sustainability of states.

6.2.3 **Recommend an integrated social security scheme for the informal sector with contributory pay and additional incentive by the government to ensure affordability and increased uptake**. Pensions and subsistence allowance also make up a large proportion of subsidy and transfer benefits. This could be made more effective through an integrated national social security scheme targeted at informal sector which is not included in formal social security schemes. The scheme can be designed to include pension benefits, health insurance, and disability coverage, mapped to the irregular income patterns of informal workers on similar lines of social security offered in case of formal employment.

6.2.4 **Suggest mandatory assessment of the impact of new proposed subsidies and transfer schemes and make the findings available to the public**. This would help in evidence-based subsidy allocation and remove bias from the decision-making process related to the distribution of subsidies. This approach aims to ensure that subsidies are allocated based on objective and evidence-based criteria, and facilitate fairness, transparency, and efficiency in the allocation of public funds.

## Annexure 1. Bibliography

Afonso, António, and Miguel St. Aubyn. "Economic growth, public, and private investment returns in 17 OECD economies." Portuguese Economic Journal 18, no. 1 (2019): 47-65.

Afonso, António, João Tovar Jalles, and Ana Venâncio. "Government spending and tax revenue decentralization and public sector efficiency: do natural disasters matter?." (2023).

Aschauer, David Alan. "Is public expenditure productive?." Journal of monetary economics 23, no. 2 (1989): 177-200.

Barroso, Luiz A., and Hugh Rudnick. "Electricity Subsidy Reform in Brazil." Energy Policy 87 (2015): 579–591.

Blanchard, Olivier J., Jean-Claude Chouraqui, Robert Hagemann, and Nicola Sartor. "The sustainability of fiscal policy: New answers to an old question." NBER Working Paper R1547 (1991).

Bose, Sukanya, and N. R. Bhanumurthy. "Fiscal multipliers for India." Margin: The Journal of Applied Economic Research 9, no. 4 (2015): 379-401.

Clements, Benedict, and Ian Parry. "What Are Subsidies?" Finance and Development, September 2018

Clements, Mr Benedict J., Mr Gerd Schwartz, and Réjane Hugounenq. Government subsidies: concepts, international trends, and reform options. International Monetary Fund, 1995.

Cordes, Till, Mr Tidiane Kinda, Ms Priscilla S. Muthoora, and Anke Weber. Expenditure rules: Effective tools for sound fiscal policy?. International Monetary Fund, 2015.

Devarajan, Shantayanan, Vinaya Swaroop, and Heng-fu Zou. "The composition of public expenditure and economic growth." Journal of monetary economics 37, no. 2 (1996): 313-344.

Egyptian Electricity Holding Company. Annual Report 2020. Ministry of Electricity and Renewable Energy, Egypt.

Fiszbein, Ariel, and Norbert Schady. Conditional Cash Transfers: Reducing Present and Future Poverty. World Bank, 2009.

Gaspar, Vitor, Mr Sanjeev Gupta, and Mr Carlos Mulas-Granados. Fiscal politics. International Monetary Fund, 2017.

Gupta, Sanjeev, and Marijn Verhoeven. "The efficiency of government expenditure: experiences from Africa." Journal of policy modeling 23, no. 4 (2001): 433-467.

Hanushek, Eric A., and Ludger Woessmann. "The economics of international differences in educational achievement." Handbook of the Economics of Education 3 (2011): 89-200.

Ihsan, Ahya, Dwi Endah Abriningrum, Bambang Suharnoko Sjahrir, Anissa Rahmawati, and Sara Giannozzi. Indonesia's Fuel Subsidies Reforms. Equitable Growth, Finance and Institutions Insight - Macroeconomics, Trade and Investment. Washington, DC: World Bank, 2024.

IMF. Indonesia: 2020 Article IV Consultation – Staff Report. IMF Country Report No. 20/60, 2020.

International Energy Agency (IEA). Global Energy Subsidies: Trends and Policy Recommendations. Paris: IEA, 2023.

International Monetary Fund (IMF). Debt Sustainability and Fiscal Rules in Emerging Markets. Washington, D.C.: IMF, 2022.

International Monetary Fund (IMF). Fiscal Monitor: Managing Subsidies and Transfers for Fiscal Sustainability. Washington, D.C.: IMF, 2021.

International Monetary Fund (IMF). Fiscal Transparency Handbook: Enhancing Public Sector Financial Reporting. Washington, D.C.: IMF, 2019.

International Monetary Fund (IMF). India: Public Finance and Fiscal Reform Challenges. Washington, D.C.: IMF, 2022.

International Monetary Fund (IMF). India: Strengthening Fiscal Rules and Public Financial Management. Washington, D.C.: IMF, 2021.

Jalles, João Tovar, Youssouf Kiendrebeogo, Raphael Lam, and Roberto Piazza. "Revisiting the countercyclicality of fiscal policy." Empirical Economics 67, no. 3 (2024): 877-914.

Katsimi, Margarita, and Vassilis Sarantides. "Public investment and reelection prospects in developed countries." Southern Economic Journal 82, no. 2 (2015): 471-500.

Lang, Kerryn and Wooders, Peter and Charles, Chris., Defining Fossil-Fuel Subsidies for the G-20: Which Approach is Best? (2010)

Lavado, Rouselle F., and Gabriel Angelo Domingo. Public service spending: Efficiency and distributional impact-lessons from Asia. No. 435. ADB Economics Working paper series, 2015.

Lledo, Victor Duarte, Mr Richard Allen, Irene Yackovlev, Eteri Kvintradze, Luis-Felipe Zanna, Sophia Gollwitzer, Ms Era Dabla-Norris, and Mr Tej Prakash. Budget institutions and fiscal performance in low-income countries. International Monetary Fund, 2010.

Mundle, Sudipto. "Rethinking Subsidies and Social Transfers in India: A Policy Framework for the 21st Century." Economic and Political Weekly 55, no. 38 (2021): 66-78.

Muralidharan, Karthik. Accelerating India's Development: A State-Led Roadmap for Effective Governance. Penguin Random House India Private Limited, 2024.

Parker, Susan W., and Paul E. Todd. "Conditional Cash Transfers: The Oportunidades Experience in Mexico." Journal of Economic Perspectives 31, no. 3 (2017): 34-58.

Patnaik, Ila, Anshu Shah, and Roberto Veronese. "Fiscal Transfers and Welfare Economics: The Indian Experience." National Bureau of Economic Research (NBER) Working Paper, 2022.

Ramaswami, Anu, Kangkang Tong, Josep G. Canadell, Robert B. Jackson, Eleanor Stokes, Shobhakar Dhakal, Mario Finch et al. "Carbon analytics for net-zero emissions sustainable cities." Nature Sustainability 4, no. 6 (2021): 460-463.

Reinhart, Carmen M., and Kenneth S. Rogoff. "Growth in a Time of Debt." American economic review 100, no. 2 (2010): 573-578.

Sala-i-Martin, Xavier X., and Robert Joseph Barro. Technological diffusion, convergence, and growth. No. 735. Center discussion paper, 1995.

Tanzi, Vito, and Ludger Schuknecht. "Reconsidering the fiscal role of government: the international perspective." The American Economic Review 87, no. 2 (1997): 164-168.

Tanzi, Vito, and Ludger Schuknecht. Public spending in the 20th century: A global perspective. Cambridge University Press, 2000.

Vergne, Clémence. "Democracy, elections and allocation of public expenditures in developing countries." European Journal of Political Economy 25, no. 1 (2009): 63-77.

World Bank. India Development Update: Fiscal Challenges and Public Sector Reforms. Washington, D.C.: World Bank, 2020.

World Bank. Public Expenditure Review: Spending for Development in Emerging Economies. Washington, D.C.: World Bank, 2022.

World Bank. Public Finance Review: Efficient and Equitable Subsidy Policies. Washington, D.C.: World Bank, 2022.

World Bank. Egypt: Energy Subsidy Reform and Delivery – Technical Assistance Report. 2018.

World Bank. Vietnam Development Report 2018: Enhancing Economic Efficiency. 2018.

Zouhar, Younes, Jon Jellema, Mohamed Trabelsi, and Nora Lustig. Public expenditure and inclusive growth-a survey. No. 2021/083. International Monetary Fund, 2021.

Zouhar, Younes, Jon Jellema, Nora Lustig, and Mohamed Trabelsi. "Public Expenditure." How to Achieve Inclusive Growth (2021): 457.

## Annexure 2. Definition of Subsidy

| Definition | Source |
|---|---|
| Government subsidies may be defined as the difference between the cost of delivering various publicly provided goods or services (henceforth, services) and the recoveries arising from such deliveries. | NIPFP, 1991, An Analysis of Change in State Government Subsidies: 1977-87, M Govind Rao and Sudipto Mundle (Link) |
| A subsidy can be defined as any government assistance that (i) allows consumers to purchase goods and services at prices lower than those offered by a perfectly competitive private sector, or (ii) raises producers' incomes beyond those that would be earned without this intervention. | IMF, 1999, Government Subsidies, Gerd Schwartz and Benedict Clements (Link) |
| All grants on current accounts made by government to private industries and public corporations, and grants made by the public authorities to enterprises in compensation for operating losses when these losses are clearly the consequence of the policy of the government to maintain prices at a level below costs of production. In the case of irrigation schemes, operating loss is classified as subsidy. | MOSPI Statistical Manual (Link) |
| Subsidy is defined as provision of benefit given by government to groups, individuals and autonomous bodies usually in the form of cash payment. | Budget Manual, Government of Rajasthan (Link) |
| A subsidy in its simplest form is a negative tax – a reverse flow (transfer) from the government to the public – or an income/ consumption supplement for individuals. Subsidies, like taxes, may thus be lump sum, proportional (ad valorem or specific) or progressive. | Budgetary Subsidies and Fiscal Deficit, Case of Maharashtra, Mukesh Anand and Raghbendra Jha, EPW 2004 (Link) |
| The explicit subsidies can be defined as, ‘money granted by State or public body to individuals/firms or organizations to bring down the cost by way of tax exemption, part payment by government, lower interest charges, and cash and kind transfers to individuals’ | Defining Explicit Subsidies and Fiscal Space in the Context of Fiscal health of States, 2024, Amar Nath, Habbar Kalle, Smriti Banati, Meena, NIPFP (Link) |
| Subsidies are 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. Subsidies are payable to producers only, not to final consumers, and are current transfers only, not capital transfers. Transfers that government units make directly to households as consumers and most transfers to nonprofit institutions serving households are recorded as either social benefits or transfers not elsewhere classified. | Government Finance Statistics, 2014, IMF (Link) |
| Subsidy is when a government meets a part of the cost of providing a good or service to a beneficiary. When a government provides income support to a beneficiary, this is a pure transfer payment unrelated to the cost of providing any good or service. | The pros and cons of subsidies through direct benefit transfer, Sudipto Mundle, 2016, Mint (Link) |
| A Government expenditure, provision for exemption from general taxation, or assumption of liability which decreases the cost of producing a specific good or service, or which increases the price which may be charged for it. | NIPFP, Rationalization of Explicit Subsidies at State Level, Amarnath H. K. et al. (Link) |

| Definition | Source |
|---|---|
| Subsidies are a transfer of resources from a government to a domestic entity **without an equivalent contribution in return** and can take many forms, including direct grants to domestic companies, tax incentives, or favorable terms for financing. Governments use subsidies for several reasons, and their terms are shaped by the goal the government hopes to accomplish. | IMF, Subsidy Wars, Back to Basics (Link) |
| Subsidy is a financial contribution by a government or any public body within the territory of a member. "Financial contributions "are categorized as follows:<br><br>(i) **Direct transfer of funds** (e.g. grants, loans and equity infusions) including potential direct transfer of funds or liabilities (e.g., loan guarantees);<br>(ii) **Government revenue otherwise due** that is foregone or not collected (e.g., tax credits or reduced tax rates);<br>(iii) **Government provision of goods or services** other than general infrastructure, or government purchases of goods; and<br>(iv) **Government payments to a funding mechanism,** or entrustment or direction of private entities by the government to carry out one or more of the type functions illustrated under (i) to (iii). | IMF, OECD, WB, and WTO, 2022, Subsidies, Trade, and International Cooperation (Link) |

## Annexure 3. Specific data gaps and assumptions

- The following demand for grants for central government departments are not available for 2025-26. Agriculture and Farmers Welfare, Rural Development, Food and Public Distribution, Micro, Small and Medium Enterprises, Home, Women and Child Development and Small-Scale Industry.
- For the Pradhan Mantri Awas Yojana (PMAY), detailed demand for grants from the central government specifically for the Rural Development Department is unavailable, to estimate actual figures for 2022-23, 2023-24, and revised estimates for 2024-25. To address this, we have taken the ratio of grants for creation of capital assets to the total program component for 2019-20 and applied the same to 2022-23, 2023-24 and 2024-25 years for grants allocated to asset creation within the total program component for PMAY-Rural.
- For West Bengal, the State Finance Account for 2022-23 and 2023-24 is not available. Consequently, the subsidy data used in Figure 3.2 and Figure 3.3 for 2022-23 and 2023-24 is sourced from RBI State Finances. Due to unavailability of SFA and RBI data for Goa, it has not been included in Figures 3.2 and 3.3.
- In the case of Goa and West Bengal, the State Finance Account for 2023-24 is not available. Therefore, expenditure on economic/social service used in Figure 4.13 and Figure 4.14 for 2023-24 is taken from RBI State Finances. Moreover, RBI has not yet published the actual figures for 2023-24, hence the revised estimates for 2023-24 have been used in West Bengal.
- In the case of Assam, the subsidies where state share was not explicitly mentioned, we have taken 10% of the total expenditure as state share.
- In the case of Haryana, for supplementary nutrition program, 50% is taken as state share based on the estimates for 2022,23, 2023-24, 2024-25 (RE) and 2025-26 (BE).
- For Odisha, the demand for grants document for the Water Resources Department was unavailable, resulting in the scheme's amount for 2017-18 in this department being recorded as zero.The subsidies for the transport sector in Maharashtra have not been incorporated due to the absence of the requisite demand for grants from the Transport Department. Similarly, due to the unavailability of demand for grants for 2024-25 and 2025-26 for the Social Justice and Disabled Welfare Department in Madhya Pradesh, this department has not been covered.
- For Gujarat, due to the absence of a detailed breakdown for the revised estimates, the figures for the 2024-25 revised estimates were calculated based on the proportion of the 2024 budget estimates relative to the gross total.

## Annexure 4. Detailed breakdown of subsidies and transfers

### Table A.2. 1: Subsidies and Transfers (in INR Crores)

| State/Central Government | 2017-18 | 2018-19 | 2019-20 | 2022-23 | 2023-24 | 2024-25 (RE) | 2025-26 (BE) |
|---|---|---|---|---|---|---|---|
| Andhra Pradesh | 28214 | 31616 | 31651 | 57600 | 62983 | 65958 | 70984 |
| Assam | 2672 | 3579 | 3143 | 7760 | 7083 | 8185 | 8255 |
| Himachal Pradesh | 1377 | 1920 | 1905 | 3627 | 3376 | 3649 | 2716 |
| Karnataka | 35809 | 40747 | 47644 | 47618 | 76619 | 86369 | 59346 |
| Kerala | 3698 | 5212 | 4741 | 6517 | 7196 | 7248 | 7651 |
| Maharashtra | 43609 | 48036 | 52659 | 68604 | 74245 | 125604 | 109422 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Punjab | 7717 | 16958 | 13746 | 28566 | 27698 | 34747 | 31995 |
| Rajasthan | 30187 | 29762 | 28891 | 39235 | 42316 | 50799 | 59419 |
| Tamil Nadu | 32659 | 34676 | 41600 | 67356 | 67498 | 66590 | 64007 |
| Uttar Pradesh | 17024 | 29348 | 31755 | 57157 | 70171 | 76767 | 61131 |
| West Bengal | 18258 | 25559 | 21049 | 55419 | 49960 | 60655 | 56565 |
| Bihar | 8941 | 14503 | 16031 | 29618 | 22935 | 29465 | 18436 |
| Chhattisgarh | 10885 | 18818 | 16521 | 24127 | 45311 | 44966 | 43699 |
| Goa | 1061 | 1042 | 939 | 1294 | 1327 | 1577 | 1563 |
| Gujarat | 14674 | 21818 | 20654 | 36442 | 37216 | 40994 | 48537 |
| Haryana | 14210 | 16231 | 16331 | 20536 | 23109 | 27743 | 32280 |
| Jharkhand | 8535 | 6672 | 10737 | 14175 | 17446 | 30277 | 36186 |
| Madhya Pradesh | 21888 | 22092 | 26870 | 49957 | 61387 | 71219 | 75679 |
| Odisha | 8864 | 12383 | 14980 | 17091 | 24296 | 46967 | 53115 |
| Telangana | 22782 | 30505 | 37490 | 56863 | 64386 | 84474 | 77560 |
| Uttarakhand | 1249 | 1540 | 1700 | 3611 | 3896 | 4123 | 4009 |
| **Subsidies and Transfers (21 States)** | **334259** | **413017** | **441035** | **693139** | **790427** | **968356** | **922520** |
| **Central Government** | 265773 | 261661 | 347715 | 718482 | 567159 | 557394 | 587998 |

*Source: Demand for Grants, Central Government and various states*

### Table A.2. 2: Subsidy as per cent of GSDP, in per cent

| States- Subsidy as % of GSDP | 2017-18 | 2018-19 | 2019-20 | 2022-23 | 2023-24 | 2024-25(RE) |
|---|---|---|---|---|---|---|
| Tamil Nadu | 2.23 | 2.13 | 2.39 | 2.81 | 2.48 | 2.15 |
| Punjab | 1.64 | 3.31 | 2.56 | 4.17 | 3.71 | 4.29 |
| West Bengal | 1.87 | 2.32 | 1.79 | 3.66 | 3.03 | 3.34 |
| Assam | 0.94 | 1.16 | 0.91 | 1.62 | 1.24 | 1.27 |
| Himachal Pradesh | 0.99 | 1.29 | 1.20 | 1.89 | 1.60 | 1.57 |
| Kerala | 0.53 | 0.66 | 0.58 | 0.64 | 0.63 | 0.57 |
| Rajasthan | 3.63 | 3.27 | 2.89 | 2.89 | 2.78 | 2.98 |
| Andhra Pradesh | 3.59 | 3.62 | 3.4 | 4.40 | 4.43 | 4.14 |
| Karnataka | 2.69 | 2.75 | 2.95 | 2.05 | 3 | 2.99 |
| Maharashtra | 1.85 | 1.90 | 1.98 | 1.88 | 1.83 | 2.77 |
| Uttar Pradesh | 1.18 | 1.85 | 1.87 | 2.53 | 2.74 | 2.79 |
| Bihar | 1.91 | 2.75 | 2.76 | 3.97 | 2.69 | 3.29 |
| Chhattisgarh | 3.85 | 5.75 | 4.79 | 5.26 | 8.85 | 7.92 |
| Goa | 1.53 | 1.45 | 1.25 | 1.38 | 1.25 | 1.30 |
| Gujarat | 1.10 | 1.46 | 1.28 | 1.65 | 1.53 | 1.53 |

| States- Subsidy as % of GSDP | 2017-18 | 2018-19 | 2019-20 | 2022-23 | 2023-24 | 2024-25(RE) |
|---|---|---|---|---|---|---|
| Haryana | 2.22 | 2.32 | 2.21 | 2.11 | 2.13 | 2.29 |
| Jharkhand | 3.16 | 2.18 | 3.46 | 3.40 | 3.78 | 5.98 |
| Madhya Pradesh | 3.01 | 2.66 | 2.90 | 4.09 | 4.53 | 4.74 |
| Odisha | 2.01 | 2.48 | 2.79 | 2.26 | 2.82 | 4.95 |
| Telangana | 3.04 | 3.56 | 3.95 | 4.31 | 4.40 | 5.24 |
| Uttarakhand | 0.57 | 0.67 | 0.71 | 1.23 | 1.17 | 1.09 |
| **Subsidies and Transfers (21 States)** | 2.09 | 2.33 | 2.32 | 2.73 | 2.79 | 3.08 |
| **Central Government** | 1.56 | 1.38 | 1.73 | 2.67 | 1.88 | 1.68 |

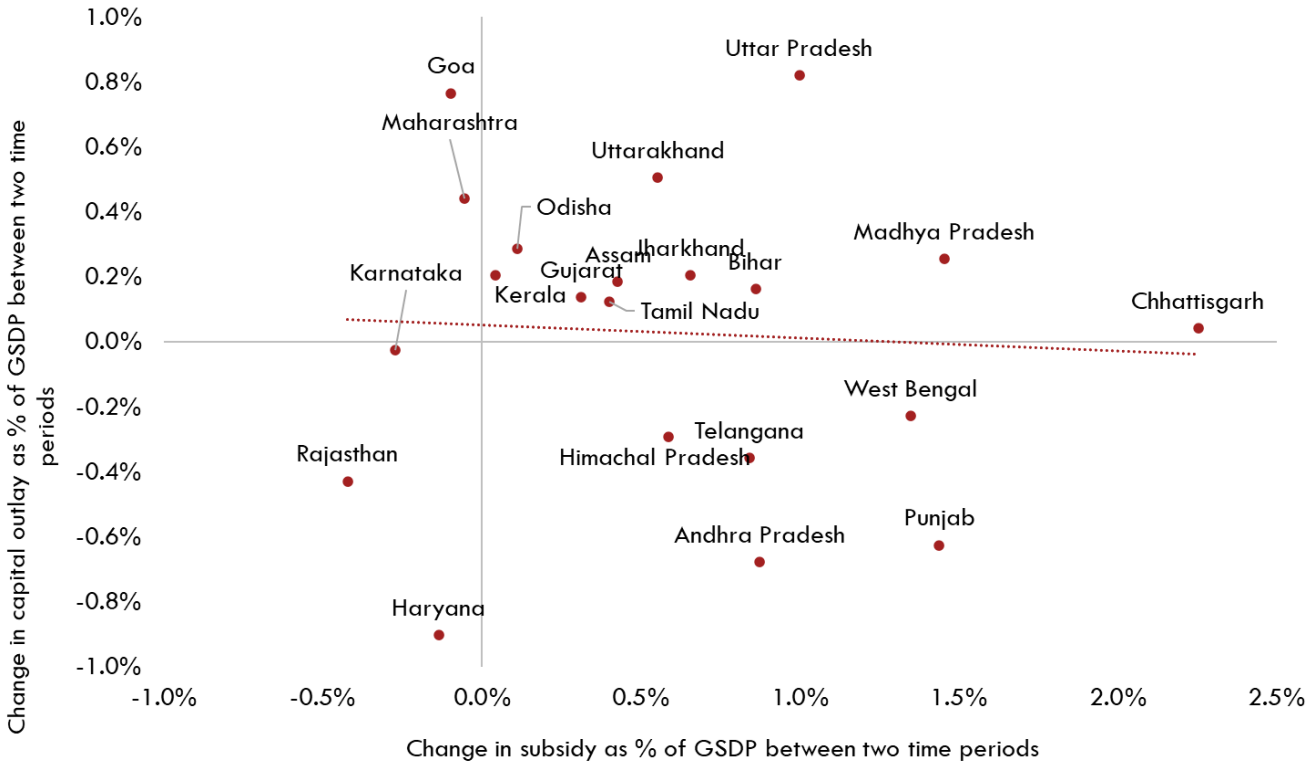
*Source: Demand for Grants, Central Government and various States, GSDP from National Income Accounts, MOSPI*

**Table A.2. 3: Percentage of households where one or more members of the household is a beneficiary of PMJAY (Ayushman Bharat) or any other state specific public health scheme , in per cent, (by MPCE quantiles)**

| States | 110 - 3110 | 3110 - 4070 | 4070 – 5282 | 5282 - 7389 | >7389 | Total |
|---|---|---|---|---|---|---|
| Himachal Pradesh | 63 | 59 | 59 | 63 | 44 | 55 |
| Punjab | 29 | 28 | 24 | 20 | 7 | 17 |
| Rajasthan | 77 | 68 | 65 | 61 | 45 | 63 |
| Uttar Pradesh | 14 | 14 | 10 | 7 | 5 | 12 |
| Assam | 68 | 63 | 59 | 43 | 23 | 57 |
| West Bengal | 85 | 82 | 76 | 67 | 46 | 76 |
| Maharashtra | 17 | 19 | 16 | 8 | 5 | 12 |
| Andhra Pradesh | 71 | 57 | 83 | 82 | 68 | 78 |
| Karnataka | 7 | 16 | 25 | 31 | 17 | 21 |
| Kerala | 41 | 39 | 36 | 32 | 22 | 30 |
| Tamil Nadu | 26 | 21 | 18 | 16 | 12 | 15 |
| Bihar | 10 | 12 | 9 | 8 | 7 | 10 |
| Chhattisgarh | 84 | 86 | 85 | 75 | 67 | 83 |
| Goa | 0 | 0 | 16 | 24 | 32 | 28 |
| Gujarat | 27 | 32 | 31 | 28 | 20 | 27 |
| Haryana | 42 | 44 | 43 | 23 | 7 | 25 |
| Jharkhand | 1 | 3 | 3 | 1 | 0 | 2 |
| Madhya Pradesh | 57 | 53 | 44 | 36 | 17 | 47 |
| Odisha | 69 | 76 | 68 | 49 | 21 | 64 |
| Telangana | 59 | 53 | 38 | 26 | 14 | 27 |
| Uttarakhand | 83 | 86 | 80 | 73 | 52 | 72 |

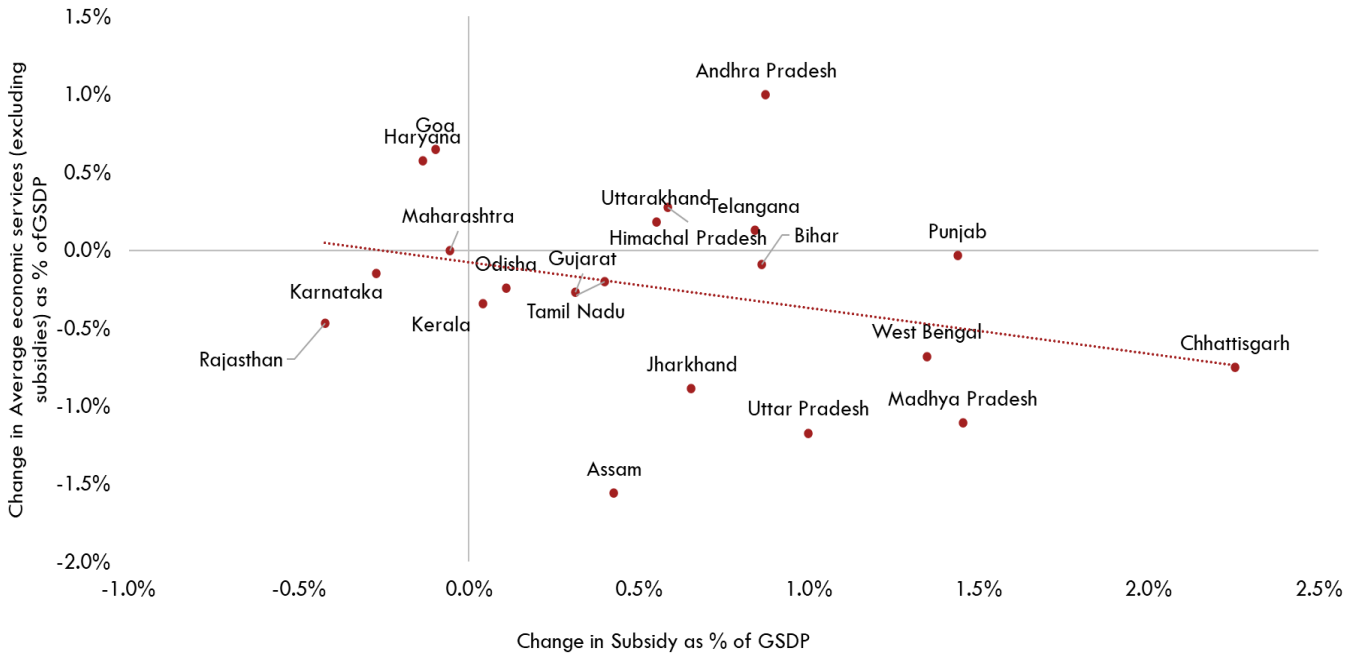
*Source: Household Consumption Expenditure Survey (2023-24), In West Bengal, PMJAY is not implemented, Instead, the Swasthya Sathi scheme functions as the state-specific public health initiative*

**Figure A.2.4: Change in Capital outlay and subsidy (as % of GSDP): Time period- average (2022-23 and 2023-24) over average (2017-18, 2018-19 and 2019-20)**




*Source: Demand for grants document, State Finances-A Study of State Budgets, RBI*

**Figure A.2.5: Change in Economic Services (excluding subsides) and subsidy (as % of GSDP): Time period- average (2022-23 and 2023-24) over average (2017-18, 2018-19 and 2019-20)**




*Source: Demand for grants document, State Finances-A Study of State Budgets, RBI, GSDP from National Accounts Division, MoSPI, GOI*

**Figure A.2.6: Change in Social Services (excluding subsides) and subsidy (as % of GSDP): Time period- average (2022-23 and 2023-24) over average (2017-18, 2018-19 and 2019-20)**


*Source: Demand for grants document, State Finances-A Study of State Budgets, RBI, GSDP from National Accounts Division, MoSPI, GOI*

## Annexure 5. Profit/Loss of State Transport Corporations

### Table A.3.1: Profit/Loss performance of Transport Public Sector Undertakings

| State | Corporation | Year | Net Profit (+)/Loss (-) (in INR crore) |
|---|---|---|---|
| Andhra Pradesh | Amaravati Metro Rail Corporation Limited | 2018-19 | -2.98 |
| Andhra Pradesh | Andhra Pradesh State Road Transport Corporation | 2018-19 | -961.28 |
| Assam | Assam State Transport Corporation | 2021-22 | -106.53 |
| Andhra Pradesh | Visakhapatnam Urban Transport Company Limited | 2016-17 | -0.01 |
| Himachal Pradesh | Himachal Road Transport Corporation | 2018-19 | -154.8 |
| Karnataka | Karnataka State Road Transport Corporation (KSRTC) | 2021-22 | -423.31 |
| Karnataka | Bengaluru Metropolitan Transport Corporation (BMTC) | 2021-22 | -178.25 |
| Karnataka | Northwestern Karnataka Road Transport Corporation (NWKRTC) | 2021-22 | -462.58 |
| Karnataka | Kalyana Karnataka Road Transport Corporation (KKRTC) | 2021.22 | -225.82 |
| Kerala | Kochi Water Metro Limited | 2022-23 | -2.41 |
| Kerala | Kerala Transport Development Finance Corporation Limited | 2020-21 | -68.38 |
| Kerala | Kerala Shipping and Inland Navigation Corporation Limited | 2020-21 | -1.99 |
| Kerala | Kerala Rail Development Corporation Limited | 2020-21 | 0.28 |
| Kerala | Kerala Rapid Transit Corporation Ltd (Erstwhile Kerala Monorail Corporation Ltd.) | 2018-19 | 0 |
| Kerala | Kerala State Maritime Development Corporation Limited | 2017-18 | -0.29 |
| Kerala | Kannur International Airport Limited | 2015-16 | -0.52 |
| Kerala | Kerala State Road Transport Corporation | 2015-16 | -1007.18 |
| Maharashtra | Pune Purandar International Airport Limited | 2022-23 | 1.21 |
| Maharashtra | Nagpur Mass Transport Company Private Limited | 2022-23 | 0.07 |
| Maharashtra | MSRDC Sea Link Limited | 2021-22 | -297.67 |
| Maharashtra | Maharashtra State Road Transport Corporation | 2021-22 | -1146.57 |
| Maharashtra | MSRDC Tunnels Limited | 2021-22 | -0.02 |

| State | Corporation | Year | Net Profit (+)/Loss (-) (in INR crore) |
|---|---|---|---|
| Maharashtra | Maha Mumbai Metro (M3) Operation Corporation Limited | 2021-22 | -1.5 |
| Maharashtra | Maharashtra State Road Development Corporation Limited | 2017-18 | -20.55 |
| Punjab | PEPSU Road Transport Corporation | 2016-17 | -5.2 |
| Rajasthan | Jaipur Metro Rail Corporation Limited | 2020-21 | -60.17 |
| Rajasthan | Rajasthan Civil Aviation Corporation Limited | 2019-20 | 0.04 |
| Rajasthan | Rajasthan State Road Transport Corporation | 2019-20 | -217.06 |
| Tamil Nadu | Metropolitan Transport Corporation limited | 2021-22 | -928.33 |
| Tamil Nadu | State express Transport corporation limited | 2021-22 | -489.04 |
| Tamil Nadu | Tamil Nadu State Transport Corporation (Coimbatore) Limited | 2021-22 | -997.23 |
| Tamil Nadu | Tamil Nadu State Transport Corporation (Kumbakonam) Limited | 2021-22 | -1026.75 |
| Tamil Nadu | Tamil Nadu State Transport Corporation (Salem) Limited | 2021-22 | -589.29 |
| Tamil Nadu | Tamil Nadu State Transport Corporation (Villupuram) Limited | 2021-22 | -960.26 |
| Tamil Nadu | Tamil Nadu State Transport Corporation (Madhurai) Limited | 2021-22 | -777.82 |
| Tamil Nadu | Tamil Nadu State Transport Corporation (Tirunelveli) Limited | 2021-22 | -853.47 |
| Uttar Pradesh | Uttar Pradesh Metro Rail Corporation Limited (Lucknow Metro) | 2022-23 | -319.02 |
| Uttar Pradesh | NOIDA Metro Rail Corporation Limited | 2022-23 | -53.98 |
| Uttar Pradesh | Uttar Pradesh State Road Transport Corporation | 2020-21 | -27.82 |
| Uttar Pradesh | Allahabad City Transport Services Limited | 2019-20 | -10.9 |
| Uttar Pradesh | Noida International Airport Limited | 2019-20 | 1.61 |
| Uttar Pradesh | Kanpur City Transport Services Limited | 2017-18 | -11.48 |
| Uttar Pradesh | Meerut City Transport Services Limited | 2017-18 | -8.59 |
| West Bengal | West Bengal Transport Corporation Limited {Formerly The Calcutta Tramways Company (1978) Limited} | 2018-19 | -188.92 |
| West Bengal | West Bengal Surface Transport Corporation Limited | 2018-19 | -89.98 |

| State | Corporation | Year | Net Profit (+)/Loss (-) (in INR crore) |
|---|---|---|---|
| West Bengal | Calcutta State Transport Corporation | 2018-19 | -68 |
| West Bengal | South Bengal State Transport Corporation | 2017-18 | 60.39 |
| West Bengal | North Bengal State Transport Corporation | 2016-17 | -5.31 |
| Bihar | Bihar State Road Transport Corporation | 2018-19 | -71.35 |
| Haryana | Gurugram Metropolitan City Bus Limited | 2018-19 | -15.15 |
| Haryana | Haryana Roadways Engineering Corporation Limited | 2018-19 | -5.42 |
| Haryana | Haryana Mass Rapid Transport Corporation Limited | 2018-19 | 0.11 |
| Chhattisgarh | Chhattisgarh Railway Corporation Limited (CRCL) | 2018-19 | -4.18 |
| Chhattisgarh | Chhattisgarh Katghora Dongargarh Railway Limited | 2018-19 | -0.05 |
| Gujarat | Gujarat State Road Transport Corporation | 2019-20 | -424.46 |
| Gujarat | Gandhinagar Railway and Urban Development Corporation Limited | 2018-19 | 0.64 |
| Jharkhand | Jharkhand Urban Transport Corporation Limited | 2018-19 | -0.52 |
| Odisha | Odisha State Road Transport Corporation | 2019-20 | 3.54 |
| Madhya Pradesh | Madhya Pradesh Metro Rail Company Limited | 2018-19 | -0.18 |
| Telangana | Hyderabad Metro Rail Limited | 2020-21 | -96.46 |
| Telangana | Telangana State Road Transport Corporation | 2020-21 | -2329.23 |
| Telangana | Hyderabad Airport Metro Limited | 2020-21 | -0.01 |
| Uttarakhand | Uttarakhand Parivahan Nigam | 2019-20 | -3.87 |
| Goa | Kadamba Transport Corporation Limited | 2021-22 | -6.67 |

*Source: CAG Report on Public Sector Undertaking (PSUs) for various States (for latest years as available)*