

## GOVT. SUBSIDY SPEND ON THE RISE AGAIN

Relevant for: Indian Economy | Topic: Issues relating to Growth & Development - Public Finance, Taxation & Black Money incl. Government Budgeting

Rising LPG prices and higher subscribers have resulted in the government's subsidy expenditure over the last two years reversing a declining trend established in the previous six years, an analysis of Budget documents by *The Hindu* shows.

The data show that the government's total expenditure on subsidies is expected to make up 9.83% of its total expenditure overall in 2019-20, according to the Budget estimate for the year, up from the 9.65% in the revised estimate for 2018-19. This increase might not seem significant by itself, but it becomes noteworthy when viewed against the backdrop of a consistent annual fall from 18.2% in 2012-13 to 8.15% in 2017-18.

### Sharp rise

A deeper dive into the data shows that the reason for this reversal is the sharp rise in food and petroleum subsidies over the last two budgets of 2018-19 and 2019-20. Food subsidies increased to Rs. 1,71,298 crore in 2018-19, up a whopping 70.8% over its allocation in the previous year. Similarly, petroleum subsidies have been budgeted to increase a significant 50.9% in 2019-20 to Rs. 37,478 crore.

While the increase in the food subsidy allocation is a reflection of the increase in the Minimum Support Prices hiked across the board, the reason behind the increase in the petroleum subsidy has to do in particular with the government's focus on LPG as a source of cleaner cooking fuel. "The reason for the increase in the petroleum subsidy is because of an increased allocation for the Direct Benefit Transfer scheme for LPG," a petroleum ministry spokesperson told *The Hindu*.

"LPG prices have been rising, and the number of subscribers has been increasing, so the subsidy amount will naturally increase." According to data with the Indian Oil Corporation, subsidised LPG prices in Delhi have risen from Rs. 399.26 per 14.2 kg cylinder in June 2011 to Rs. 500.9 per cylinder in December 2018.

The price of an unsubsidised cylinder was Rs. 809.50 in December, which means the subsidy was Rs. 308 a cylinder. And the Centre subsidises 12 cylinders a year per customer.

The government has two major schemes in the LPG sector. PAHAL scheme, the first, involves direct cash transfers to LPG consumers for 12 numbers of 14.2 kg cylinders per year. The second scheme, the Ujjwala Yojana, seeks to give free LPG connections to poor households. In terms of consumption, data with the Petroleum Planning and Analysis Cell show that LPG consumption has grown in tandem with the launch of the PAHAL scheme. While LPG consumption grew 1.6% and 4.4% in 2012-13 and 2013-14, respectively, the growth averaged 9.4% in the years since the scheme was launched in 2013.

Budget provisions have grown in consonance with this growth rate, with the government providing a huge Rs. 29,500 crore for the Direct Benefit Transfer scheme, up from Rs. 16,477.8 crore in the previous year and Rs. 13,097.13 crore in 2017-18. Interestingly, the allocations for Ujjwala Yojana have fallen nearly 15% in 2019-20 compared to the previous year.

"If the trend of rising subsidy prices continues into the future, then it could certainly be a matter

of concern when it comes to the government's fiscal consolidation plans," D.K. Srivastava, chief policy advisor at EY India said.

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