

## Food subsidy

5.63 The food security system in the country, which has the dual objective of providing minimum nutritional support to the poor at an affordable price and ensuring price stability in different parts of the country (by supplying foodgrains to the deficient areas), involves subsidy from the exchequer. Food subsidies grew steeply at annual rates between 28 per cent and 45 per cent during the period 2000-01 and 2002-03, and even as a proportion of GDP (Table 5.23). But, attainment of self-sufficiency in foodgrains production (with implication for reduced need for price stabilisation operation), and reduction in the proportion of people belonging to the BPL category should actually lead to decline in the levels of food subsidy. There is also unanimity that the targeting of food subsidy leaves a lot of scope for improvement.

5.64 National Common Minimum Programme (NCMP) of the Government pledges that all subsidies will be targeted sharply to the poor and the truly needy. In order to achieve this objective, the Ministry of Finance with the assistance of the National Institute of Public Finance and Policy (NIPFP) prepared a report on "Central Government Subsidies in India". The report examines major subsidies including food and fertilisers and recommends policies for reforms in subsidies. As regards food subsidies, the report suggests that the minimum support prices should be kept at the C2 level recommended by the CACP. To contain operational costs, reimbursement of expenses of the Food Corporation of India should be based on normative unit costs and actual quantities involved. With respect to the public distribution system, it is suggested that the system of dual prices, which encourages leakages, may be replaced by a uniform price policy along with a system of food coupons for the BPL families.

5.65 Government took special measures during 2001-02 which continued through 2002-03, such as release of foodgrains from the FCI at concessional rates for exports, offloading of the old and low quality foodgrains through tender sale and reduction in the APL

issue price to bring back APL population to the PDS fold, to dispose of the excess stock of foodgrains. These measures helped in reducing the excess stock of foodgrains with the FCI. Further, the Government also adopted the policy of restraint in the announcement of the MSPs of wheat and rice (as discussed earlier in the section on minimum support price), as part of its strategy to remove market distortions, and to restore the role of private trade in the grain market, thereby easing the pressure of procurement on the FCI. Some success has been achieved in this respect, because the market prices of rice and wheat, which remained below the MSP in different parts of the country during 2001-02 and 2002-03 recovered to prevail at a level higher than the MSP during 2003-04 and, 2004-05. All these helped in tackling the problem of excess stock of foodgrains with the FCI and as already

**Table 5.23 : Growth of food subsidies in India**

Year	Food subsidy* (Rs crore)	Annual growth (per cent)	As per cent of GDP
1990-91	2450		0.43
1991-92	2850	16.33	0.44
1992-93	2800	-1.75	0.37
1993-94	5537	97.75	0.64
1994-95	5100	-7.89	0.50
1995-96	5377	5.43	0.45
1996-97	6066	12.81	0.44
1997-98	7900	30.23	0.52
1998-99	9100	15.19	0.52
1999-00	9434	3.67	0.49
2000-01	12060	27.84	0.58
2001-02	17499	45.10	0.77
2002-03	24176	38.16	0.98
2003-04(RE)	25800	6.72	0.93
2004-05** (April-Nov)	17639	-	-
2003-04** (April-Nov)	20033	-	-

\* Other than that on sugar.  
 \*\* Controller General of Accounts, Review of Union Government Accounts, November 2004.  
 Source : Budget documents, various issues and CSO.

discussed earlier, the declining trend in stock levels, which started in 2003-04 , continued through 2004-05.

5.66 Carrying costs of foodgrains accounted for almost 20 to 25 per cent of the food subsidy during 2001-02 and 2002-03. The decline in food stocks during 2003-04 and 2004-05 with implications for reduction in the carrying cost

and the gradual decline in the disposal of subsidised foodgrains have resulted in a considerable deceleration in the growth of food subsidy during 2003-04 and, in fact, a decline in the level of food subsidy during the first 8 months of the fiscal 2004-05 as compared to the corresponding period of the fiscal 2003-04 (Table 5.23).