

Agricultural Commodities and Price Policy in India-Economic Analysis

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INTRODUCTION

The Minimum Support Price (MSP) is a price guarantee that the Indian government provides to farmers for specific crops annually. Introduced during the Green Revolution in 1966-67 with wheat as its first focus, MSP was aimed at encouraging farmers to adopt high-yield seed varieties by ensuring a secure selling price. The Agricultural Prices Commission (APC) was formed in January 1965, presenting its initial MSP recommendation for paddy in August 1965 under M.L. Dantwala's leadership. This commission later transitioned into the Commission for Agricultural Costs and Prices (CACP) in March 1985, expanding its responsibilities significantly. MSP functions as a safety net; when market prices dip, farmers have the option to sell directly to government agencies at this guaranteed price, preventing losses. The pricing structure is set at a minimum of 50% above the all-India weighted average production cost, ensuring farmers maintain a basic profit margin. MSP announcements are made prior to the sowing season, allowing farmers to make informed cropping decisions.

The MSP system serves three main purposes

Objectives of the MSP System

1. **Income Assurance:** Farmers receive a fixed price for vital crops, reducing their financial uncertainty.
2. **Market Stability:** Government procurement helps stabilize markets by curbing severe price declines.
3. **Public Food Security:** Crops bought at MSP contribute to national food reserves like the Public Distribution System (PDS).

Institutional Structure of MSP

Each year, the government establishes MSPs for 22 designated crops—including cereals, pulses, oilseeds, and commercial varieties—following guidance from CACP under the Ministry of Agriculture & Farmers Welfare before receiving approval from the Government of India.

Procurement of Agricultural Commodities

Collection of agricultural commodities is executed by

- Food Corporation of India (FCI) and specified State Agencies for cereals
- NAFED (National Agricultural Cooperative Marketing Federation) and NCCF (National Cooperative Consumers' Federation) handle pulses and oilseeds through the Price Support Scheme (PSS) under PM-AASHA (Pradhan Mantri Annadata Aay Sanrakshan Abhiyan) Scheme

- Cotton Corporation of India (CCI) for cotton and
- Jute Corporation of India (JCI) for jute

Cost Components of MSP

CACP assesses three types of production costs for each crop at both state-level and national averages,

- **A2 Cost:** All paid-out costs — seeds, fertilisers, pesticides, hired labour, fuel, irrigation, etc.
- **A2+FL Cost:** A2 plus the imputed value of unpaid family labour.
- **C2 Cost:** The most comprehensive — includes A2+FL plus rentals and interest on owned land and fixed capital assets.

Starting from Union Budget 2018-19, it has been mandated that MSP will be set at no less than 1.5 times the all-India weighted average A2+FL production cost across all designated crops.

Kharif Crops MSP (2025-26)

The Cabinet Committee on Economic Affairs (CCEA) approved Kharif Crop MSPs for Marketing Season 2025-26.

Crop	MSP 2025-26 (₹/Qtl)	MSP 2024-25 (₹/Qtl)	Increase (₹)	Increase (%)
Paddy (Common)	2,369	2,300	69	3.0%
Paddy (Grade A)	2,389	2,320	69	3.0%
Jowar (Hybrid)	3,590	3,371	219	6.5%
Jowar (Maldandi)	3,620	3,421	199	5.8%
Bajra	2,625	2,500	125	5.0%
Maize	2,225	2,090	135	6.5%
Ragi	4,886	4,290	596	13.9%
Tur (Arhar)	8,000	7,550	450	6.0%
Moong (Green Gram)	8,682	8,682	0	0%
Urad (Black Gram)	7,800	7,400	400	5.4%
Groundnut	6,783	6,377	406	6.4%
Sunflower Seed	7,721	7,280	441	6.1%
Soybean (Yellow)	4,892	4,600	292	6.3%
Sesamum	9,846	9,267	579	6.2%
Niger Seed	9,537	8,717	820	9.4%
Cotton (Medium Staple)	7,710	7,121	589	8.3%
Cotton (Long Staple)	8,110	7,521	589	7.8%

(Source: PIB Press Release, Government of India, May 2025)

The highest absolute increase was for Niger Seed (₹820/Qtl, +9.4%), followed by Ragi (₹596/Qtl, +13.9%) and Cotton (₹589/Qtl). Paddy received the lowest percentage hike at 3.0%, the lowest in five years.

Rabi Crops MSP (2025-26)

The Rabi season covers crops sown between October-November and harvested from March-April.

Rabi Crop	MSP 2025-26 (₹/Qtl)	MSP 2024-25 (₹/Qtl)	Increase (₹)	% Over Cost
Wheat	2,425	2,275	150	105%
Barley	1,980	1,850	130	60%
Gram (Chickpea)	5,650	5,440	210	60%
Lentil (Masur)	6,700	6,425	275	89%
Rapeseed & Mustard	5,950	5,650	300	98%
Safflower	5,940	5,800	140	50%

(Source: CCEA Cabinet Approval, October 2024 (PIB))

The wheat MSP hike of ₹150/Qtl in 2025-26 was the highest since 2007-08. For Rabi 2026-27, wheat MSP was further raised to ₹2,585/Qtl a margin of 109% over cost of production as announced in October 2025 (PIB). During Rabi Marketing Season 2026-27, procurement is estimated at 297 Lakh MT, with farmers expected to receive approximately ₹84,263 crore at MSP (PIB, 2025).

For the Rabi 2026-27 season: According to the Press Information Bureau (PIB) of India:

- For Rabi Marketing Season (RMS) 2026-27, MSP procurement is estimated at 297 lakh metric tonnes (LMT).
- Under this procurement, farmers are expected to receive about **₹84,263 crore at MSP**.
- MSP returns over the cost of production are **high up to 109% for wheat** in this season.
- Over the last decade, MSP **payouts of foodgrains have more than tripled** from **₹1.06 lakh crore (2014-15)** to **₹3.33 lakh crore (July 2024-June 2025)**.
- Total procurement has increased from **761.40 LMT to 1,175 LMT**, benefiting an estimated **1.84 crore farmers**.
- **Wheat** was increased to **₹2,585 per quintal**, potentially adding profits per acre.
- Other crops like gram, mustard, lentils also saw increases.

- Also, for the **first time in years**, MSP for **87 minor forest produce items** collected by tribal and forest-dependent communities is likely to go up, supporting tribal incomes.

Year	Paddy (Common) ₹/Qtl	Wheat ₹/Qtl	Tur (Arhar) ₹/Qtl	Cotton (Long) ₹/Qtl
2014-15	1,360	1,450	4,350	4,050
2016-17	1,470	1,625	5,050	4,160
2018-19	1,750	1,840	5,675	5,450
2020-21	1,868	1,975	6,000	5,825
2022-23	2,060	2,015	6,600	6,380
2024-25	2,300	2,275	7,550	7,521
2025-26	2,369	2,425	8,000	8,110

Paddy

₹1,360 per quintal in FY2014–15 increased to ₹2,369 per quintal by FY2026–27 *(over an increase exceeding ~80%).

Wheat

From ₹1,450 per quintal in FY2014–15 to ₹2,425 per quintal by FY2026–27.

Tur (*Arhar*)

Increased from ₹4,350 per quintal during FY2014–15 to ₹8,000 per quintal currently reported an increase of nearly 86%.

Decade Level MSP Procurement Comparison

Government of India data presents a dramatic transformation in MSP procurement over the past decade, reflecting both the expansion of coverage and the increase in farmer participation.

Category	2004-05 to 2013-14	2014-15 to 2024-25	Growth
Paddy Procurement	4,590 Lakh MT	7,608 Lakh MT	+65.8%
All Kharif Crops Procurement	4,679 Lakh MT	7,871 Lakh MT	+68.2%
MSP Payment for Paddy	₹4.44 Lakh Crore	₹14.16 Lakh Crore	+218.9%
All Kharif MSP Payments	₹4.75 Lakh Crore	₹16.35 Lakh Crore	+244.2%
Pulses Procurement at MSP	1.52 Lakh MT (2009-14)	82.98 Lakh MT (2020-25)	+7,350%
Oilseeds Procurement at MSP	(Base period)	(Current period)	+1,500%

MSP in Recent Trends

Over the last decade, MSP and government procurement have grown a lot,

- Procurement of foodgrains at MSP increased from about **761 lakh metric tonnes in 2014-15** to **1,175 lakh metric tonnes in 2024-25**.
- Farmers covered by MSP procurement increased from about **1.63 crore in 2021-22** to **1.84 crore in 2024-25**.
- MSP value paid to farmers also increase from about **₹2.25 lakh crore** to **₹3.33 lakh crore**.

Support of the Union Budget 2025-26 to MSP

Pulses Self-Sufficiency Mission

The six-year Pulses Mission announced in Budget 2025-26 continues with dedicated support for seeds, storage, and farmer guidance to reduce import dependence and ensure pulses are procured fully at MSP by 2028-29.

In the last eleven years, India has achieved a remarkable turnaround in the pulses sector. Once marked by low cultivation and high import dependence, the sector now reflects greater procurement at increased MSPs, reduced import reliance, and improved price stability.

- Pulses procurement at MSP increases by 7,350% from 1.52 Lakh MT (2009-14) to 82.98 Lakh MT (2020-25).
- Government aims to procure 100% of production of Tur, Urad, and Masur by 2028-29.
- By March 2025, 2.46 Lakh MT of Tur (Arhar) was procured from 1,71,569 farmers in Andhra Pradesh, Gujarat, Karnataka, Maharashtra, and Telangana.
- The six-year Pulses Mission (announced in Union Budget 2025-26) focuses on seeds, guidance, and storage to reduce imports.

These numbers show MSP is reaching more farmers and giving them real income support.

Challenges in MSP

I. National Level Challenges

Limited Coverage of crops - MSP currently covers only 22 crops, while India cultivates over 200 crops.

Geographic Concentration of Procurement

1. Even though the government has increased procurement centres across India, most wheat and paddy are still bought mainly from a few states like **Punjab, Haryana, Uttar Pradesh, Madhya Pradesh, and Chhattisgarh**.
2. In Tamil Nadu also, most of the rice procurement is concentrated in just 10 Cauvery delta districts. Nearly two-thirds of the state's paddy procurement comes from these districts alone.
3. On the other hand, states like **Bihar and West Bengal**, even though they produce a large amount of paddy, sell

only about 1% of their total production to the government at MSP.

II. Crop Specific Distortions

1. In the past, MSP policy mainly supported **paddy and wheat**. Because of this, farmers in states like **Punjab and Haryana** kept growing only these two crops again and again.
2. Now, the government is trying to fix this problem by giving higher MSP increases for **pulses, oilseeds, and millets** so that farmers grow different crops.

III Private Market Competition

1. In 2024–25, Tamil Nadu Civil Supplies Corporation (TNCSC) bought less paddy than before.
2. Procurement reduced from **44.42 lakh metric tonnes in 2022–23** to **34.96 lakh metric tonnes in 2023–24**.
3. This happened because many farmers sold their paddy to **private rice mills**, as they were offering higher prices than the MSP during that season.

IV Fiscal Burden

1. The government spends a very large amount of money on MSP and related support schemes. In FY 2025–26, the total **food subsidy** given through FCI is around **₹1.70 lakh crore**.
2. In Budget 2026–27, the **fertiliser subsidy** alone is also about **₹1.70 lakh crore**. Altogether, the Union Government now spends more than **₹4.35 lakh crore every year** on agriculture-related support.

Reference

1. Government of India, CCEA Cabinet Approval, October 2024 (PIB)
2. PIB Press Release, Government of India, May 2025
3. Press Information Bureau (PIB) of India, 2026-27 Government of India Rabi Season report

