



Mapping India's Energy Policy 2025

Aligning government support for India's energy transition

16 December 2025

Research objectives

Aim:

Improve transparency on the Indian governments' support for the energy sector

Ultimate objective:

Energy that is more equitable, secure, and aligned with the government's target to achieve net zero emissions by 2070.

Why:

Analyzing public support and revenue are important for the energy transition since:

- Energy prices determine consumption patterns and energy affordability
- Fossil and clean energy have very different societal benefits and costs
- Better information on support = better informed policy = better outcomes

How:

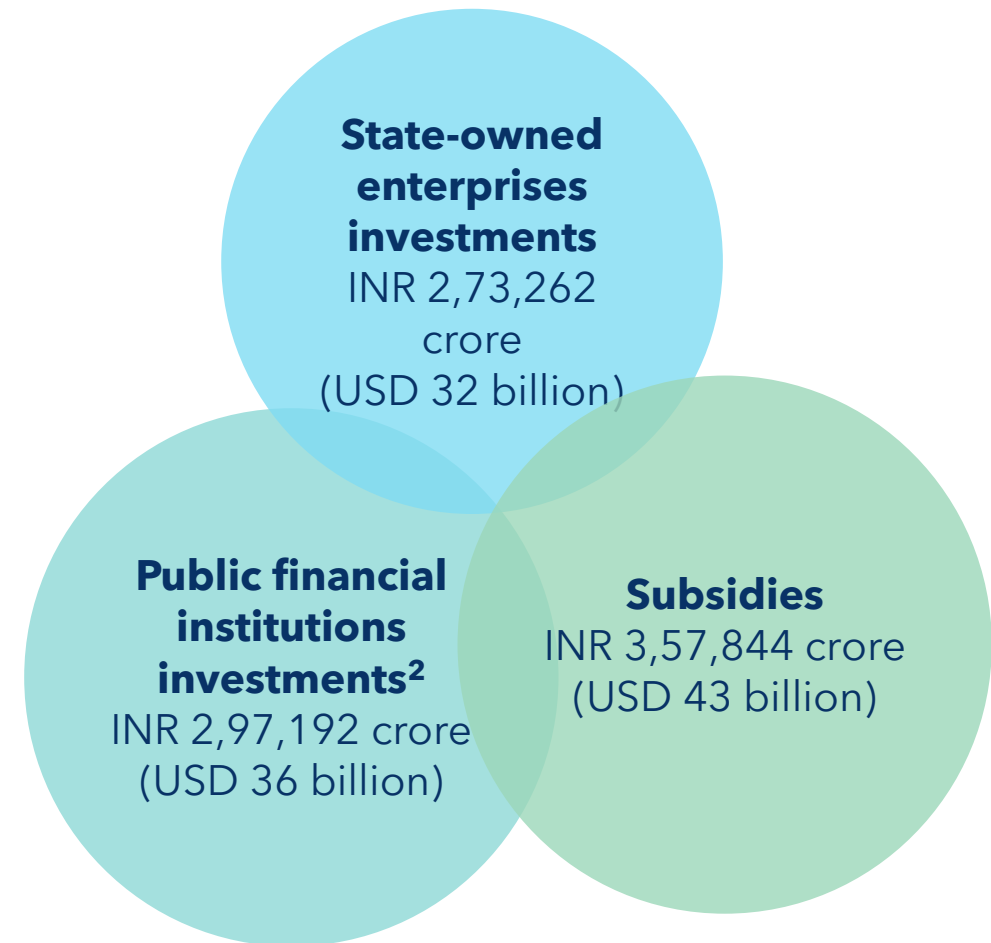
The study gathers and analyses the best available data (FY 2014–FY 2024) on:

- Subsidies, PSU investments, and public finance for fossil fuels, renewables, and electric vehicles (EVs)
- Energy revenue raised from fossil and clean energy
- Externalities (social cost) of fossil fuels and renewables

SUMMARY OF KEY RESULTS

Government support for energy is estimated to be at least **INR 6.3 lakh crore (USD 75 billion)¹** in FY 2024

- Government support for fossil fuels in India has reduced to **five times** the size of clean energy³—the lowest in the last 5 years.



Note: 1-In this study, we add only subsidies and SOE CapEx to report total government support and avoid double-counting of financial flows. Domestic PFIs act as financial intermediaries, with a large portion of their debt used to finance SOE CapEx, hence the overlaps.

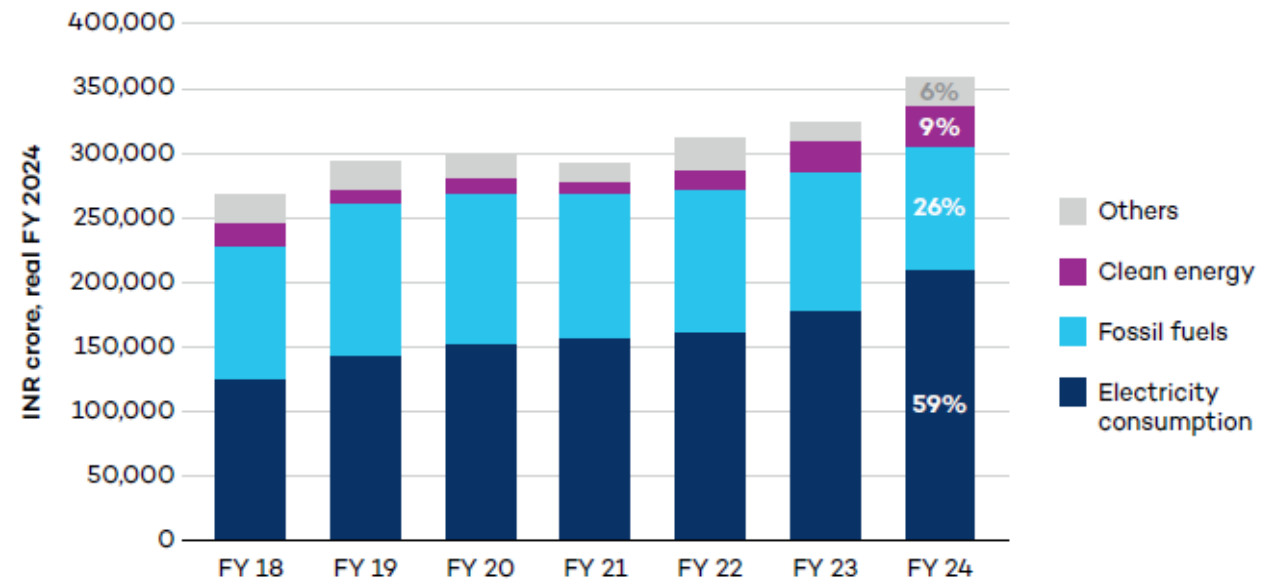
2-Many energy-related PFIs in India are also SOEs, but we categorize them as PFIs to highlight their role as financial intermediaries.

3-Clean energy includes renewable energy and electric vehicles

Takeaway #1

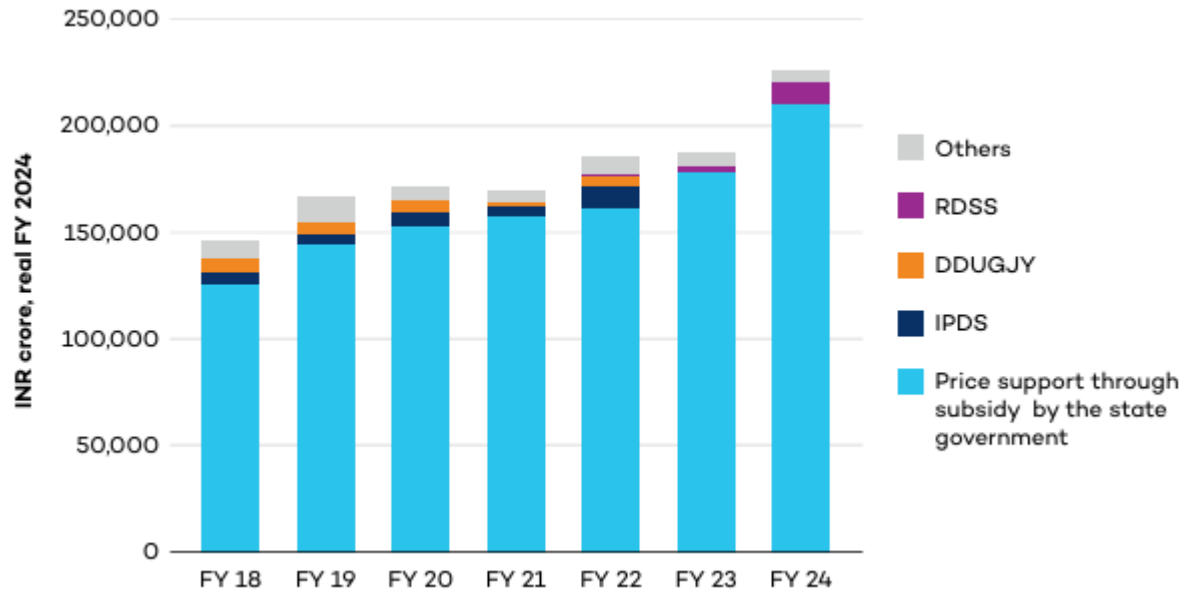
Growing levels of electricity subsidies for end consumers provided by state governments continue to constrain the fiscal headroom available for scaling clean energy subsidies.

- 72% of total energy subsidies in the form of direct transfers from center and state government budgets
- Majority (59%) of energy subsidies remained locked in the form of electricity subsidies provided by state governments to end-consumers.
- Clean energy subsidies form only 9% of all energy subsidies; yet signal progress and the need for sustained policy momentum.
- FY 24 recorded a 12% decline in fossil fuel subsidies—the sharpest since COVID-19—but this was due to cyclical price movements, not structural policy shifts.



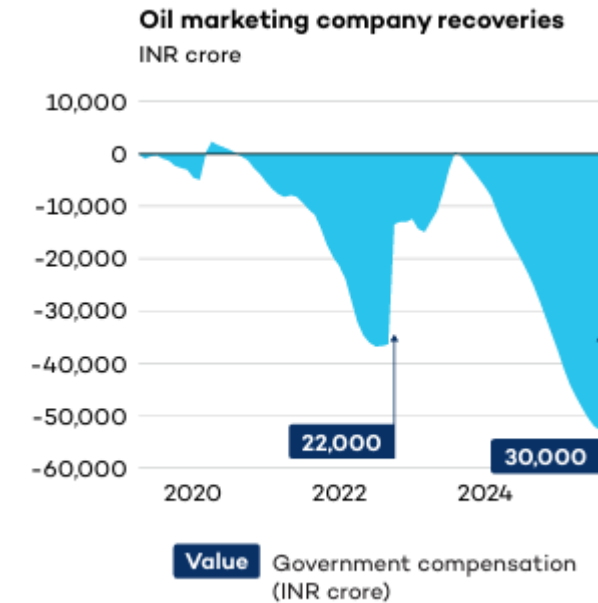
SPOTLIGHT SUBSIDY ISSUES

Rising electricity subsidies for end consumers



- In FY 2024, state governments provided INR 2,10,784 crore (USD 25 billion) for low-cost electricity to farmers and residential consumers

Rising LPG subsidies with higher adoption

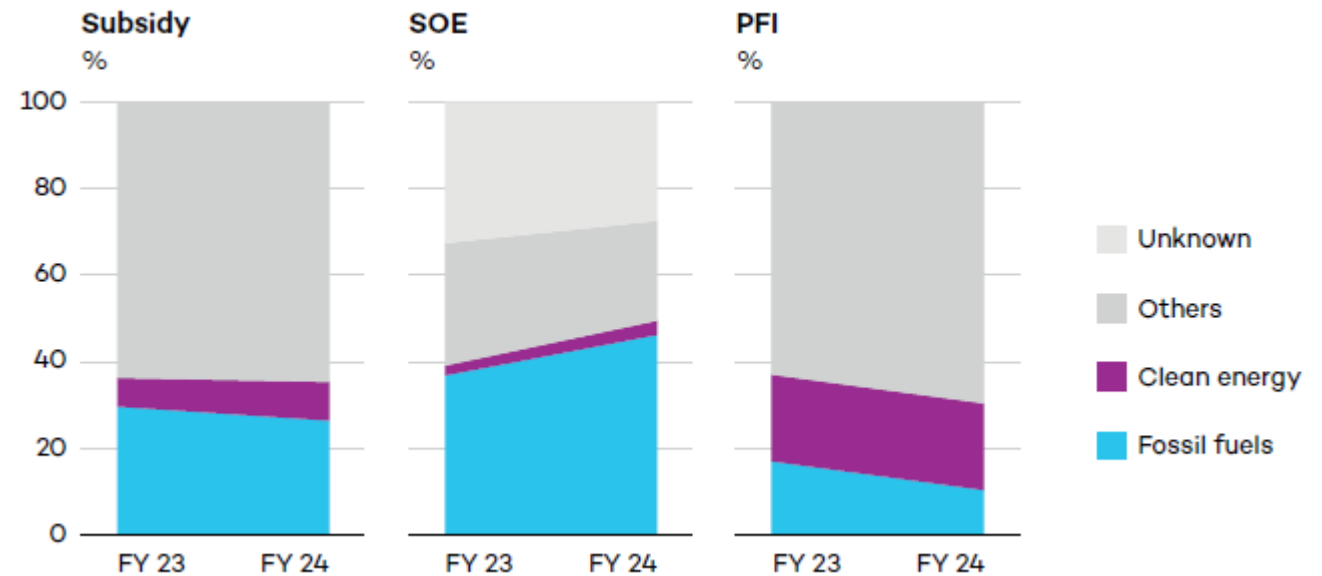


- Persistent price controls on domestic LPG prices have generated large under-recoveries for OMCs, requiring frequent government compensation.
- LPG subsidies are funded through excise duty collections on petrol and diesel

Takeaway #2

Clean energy support is being channelized through direct budgetary transfers, while fossil fuel support is increasingly being provided by PSUs.

- Of the three broad measures of government support, subsidies have been the first to shift towards clean energy, followed by PFIs.
- PSU capex is growing, but 83% of new investments of CPSUs are in fossil fuel assets; some PSUs are beginning to diversify, although the scale remains small.
- PFIs such as REC Ltd. and PFC Ltd. significantly increased lending to electricity distribution during the period.

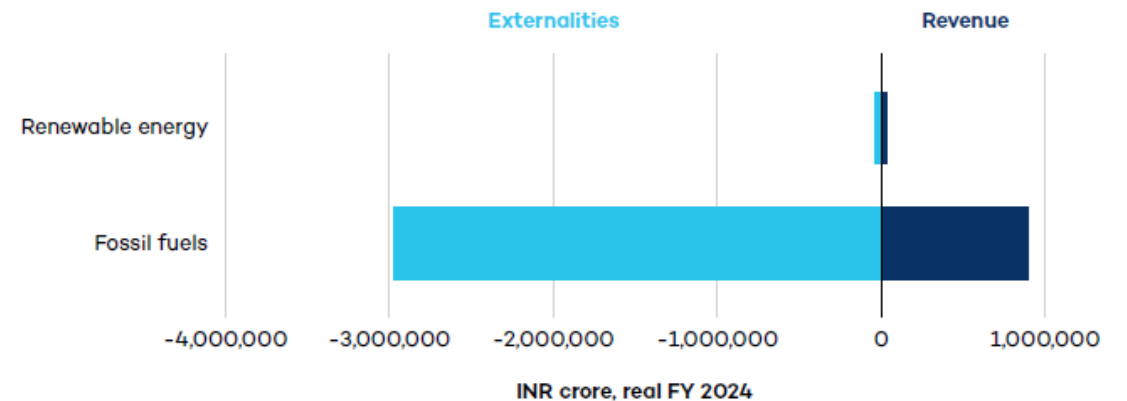
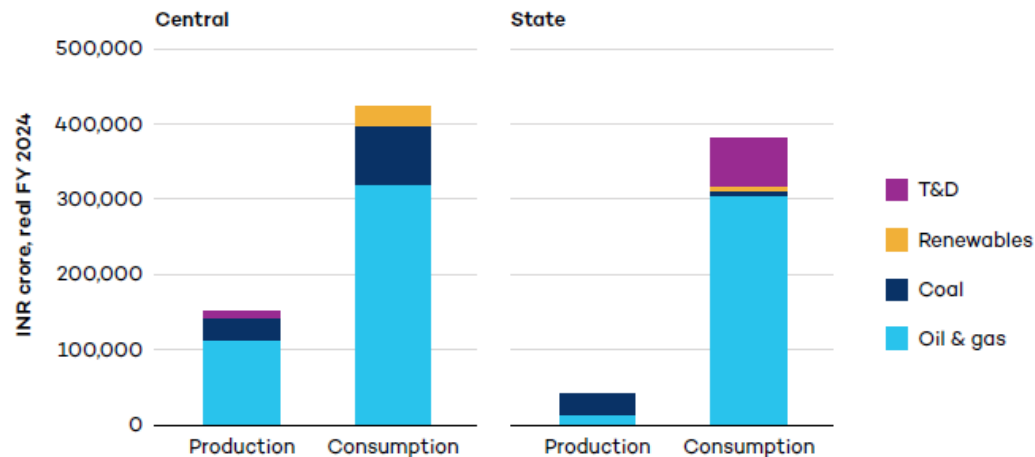


Note: "Others" include government support to electricity transmission and distribution (T&D), since this is neutral to the source of electricity generation. 'Unknown' comprises of PSU support that could not be classified into energy types due to lack of disaggregated data on project-level information

Takeaway #3

Fossil fuel externalities outweigh revenues by at least three times, making a strong case for using taxation measures to reflect social and environmental costs.

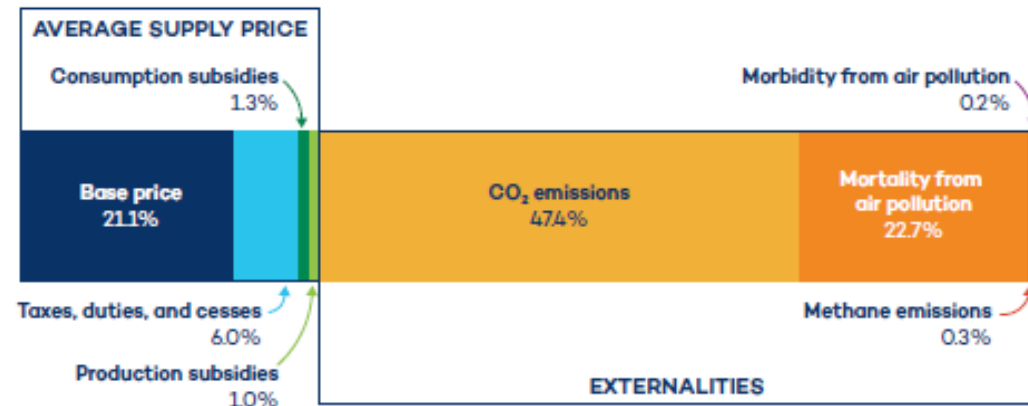
- Energy revenues were at least INR 10 lakh crore (USD 121 billion) and represented 16% of all government revenue receipts in FY 24.
- 90% of energy revenue came from fossil fuels—75% from oil and gas (O&G) and 14% from coal, primarily from consumption taxes.
- Fossil fuel revenues made up only 30% of the fossil fuel externalities in FY 24 (using a conservative approach).
- In comparison, RE-based revenues, although small in size, cover 87% of the externalities.



SPOTLIGHT ISSUE

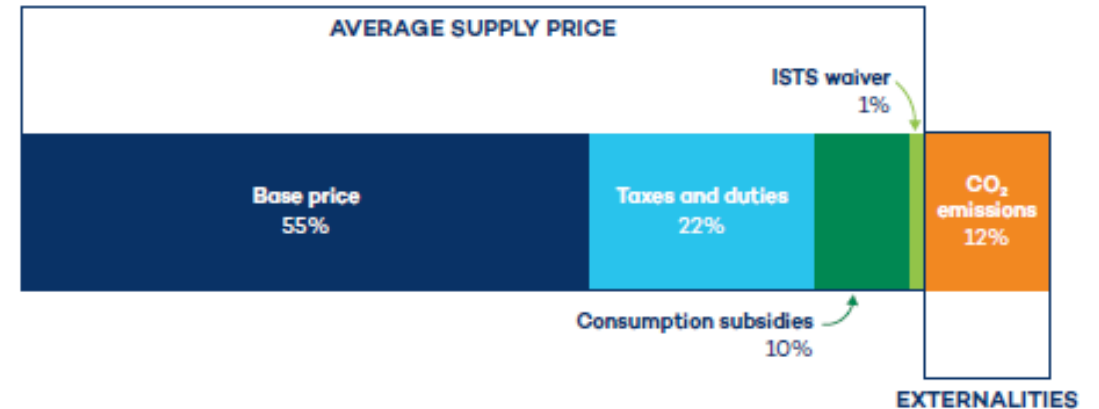
Do tax measures on fossil fuels adequately represent energy externalities?

True costs of coal usage in India (FY 2024)



Coal taxation accounts for 6% of the true cost of coal usage when externalities are accounted for; nearly 71% of the costs are externalized.

True costs of RE-based electricity in India (FY 2024)



Taxation on RE-based electricity was nearly 22% of its true costs in 2024. The base price along with subsidies and taxes account for nearly 88% of the true cost of RE-based electricity.

Recommendations

Urgent reforms (2025-28)

Improve targeting of electricity subsidies and continue expanding clean energy subsidies.

- Improve incentives for states implementing pilots on better targeting of electricity subsidies and smart meters
- Scale up subsidies for localizing manufacturing of clean energy technologies to increase domestic value addition and enhance energy security.
- Extend but redesign existing clean energy subsidies such as PM-KUSUM beyond its expiry date in March 2026.
- Phase-out remaining fossil fuel production subsidies

Strategic reforms (2028-35)

Develop a robust strategy to gradually align the cost of fossil fuel production and supply with its social costs.

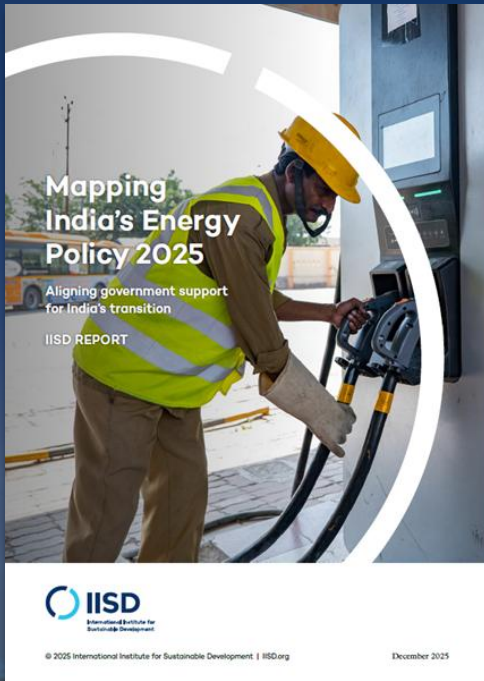
- Develop a plan to scale up next-generation support for offshore wind, green hydrogen and electric cooking
- Revive FGD mandates and consider imposing a carbon tax on low-grade coal to correct the unintended consequence of removal of GST compensation cess
- Design compensatory fiscal measures, such as carbon pricing, green taxes, or a broadened tax base, to maintain revenue neutrality
- Incentivize PSUs to lead by example on emission reporting and develop diversification strategies in alignment with India's NDCs

Whole-of-government reforms (2035-47)

Embed and mainstream use of sustainability metrics in budget planning and SOE investments for a "whole of government" approach.

- Mainstream use of sustainability metrics such as emission intensity for providing and evaluating the effectiveness of government support.
- Better disclosures by PFIs on embodied emissions, climate risks and green asset ratio.

For more details:



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Photo: Shawn Sebastian/IISD

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