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**FOR
AGENDA**

EBS/83/130
Supplement 2

CONFIDENTIAL

July 20, 1983

To: Members of the Executive Board
From: The Acting Secretary
Subject: India - Extended Arrangement - Program for 1983/84

The attached supplement to the paper on India's program for 1983/84 under the extended arrangement has been prepared on the basis of additional information.

If Executive Directors have technical or factual questions relating to this paper prior to the Board discussion, they should contact Mr. Bruce Smith (ext. (5)7301) or Mr. Baumgartner (ext. (5)7307).

Att: (1)

CONFIDENTIAL

INTERNATIONAL MONETARY FUND

INDIA

Extended Arrangement--Program for 1983/84

Supplementary Information

Approved by Tun Thin and Donald K. Palmer

July 20, 1983

The Indian authorities have announced a reduction in fertilizer prices of 7.5 per cent. This follows a slowdown in fertilizer sales and a buildup in stocks during the current kharif season. The authorities have taken this measure with the aim of maximizing foodgrain production from the kharif crop following the shortfall last year because of severe drought. They believe it will contribute to economic stability, especially by containing food prices. They note also that the price reduction follows a sizable decline in international fertilizer prices over the past year or so. The reduction in fertilizer prices has been accompanied by announcement of an 8.2 per cent increase in the official procurement price for paddy; procurement prices for coarse grains have been raised by 5 per cent and support prices for principal kharif pulses increased by 4-14 per cent.

The authorities expect that the recent accumulation of fertilizer stocks will be reversed in the coming months, resulting in a saving on carrying costs. Nevertheless, they recognize that, overall, the price reduction will result in some increase in the subsidy burden. They emphasize, however, that this would not disturb the fiscal targets established under the program for 1983/84. The staff estimates that the fertilizer subsidy, which amounted to Rs 3.9 billion in 1981/82 and Rs 6.5 billion in 1982/83 and was budgeted to rise to Rs 8 billion in 1983/84, is likely to rise by about Rs 1.5 billion as a result of this measure. The share of Central Government expenditure absorbed by the fertilizer subsidy would rise from 1.6 per cent in 1981/82 to about 2.9 per cent in 1983/84; the aggregate subsidy bill, as a percentage of GDP, would rise only slightly from 1.4 per cent to 1.6 per cent over the same period. The staff appraisal of EBS/83/130 includes staff views on the issues of subsidies and fertilizer pricing.