Impact of Fertilizer Subsidy on Paddy Production in Matale District

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Paddy is the most important cereal crop in Sri Lanka. Sri Lankan government introduced cash subsidy program for paddy fertilizer in 2016 in order to reduce the fertilizer application for the paddy cultivation. This study examines the impact of fertilizer subsidy on paddy production in Matale district, Sri Lanka. For this study one hundred and twenty paddy farmers were randomly selected from divisional secretaries of Matale district. Data on paddy production, harvested extent, subsidy amount under input subsidy and cash subsidy for the *Maha* season of 2014 to 2017 were collected by interviewing farmers, using structured questionnaire. This panel data were used to estimate the fixed and random effect model. Hausman test indicates that random effect model is the consistent model for the data. Random effect model reveals that a 10 % increase in input subsidy averagely increase total paddy production of *Maha* season in Matale district by 0.6 %. There is no significant impact of cash subsidy on paddy production. One percent increase in harvested extent of paddy in *Maha* season is associated with around one percent increase in the yield of paddy production. This study would be useful to the policy makers to formulate suitable fertilizer subsidy program.

Key words: Cash subsidy, Input fertilizer subsidy, Panel data regression, Random effect model