

## ECONOMIC SUBSIDIES IN AGRICULTURE

*Violeta Babić<sup>1</sup>, Božidar Milošević<sup>2</sup>, Goran Maksimović<sup>3</sup>*

### Summary

*The funds allocated to agriculture are a significant part of economic transfers. A large part of the EU budget is directed to agriculture, and the average amount of subsidies in the EU-27 was, in 2013, approximately € 330 per hectare. Agriculture subsidies comprise about 60% of total subsidies in the EU. Situation in Serbia is not as good as in the EU because the subsidies per hectare are three times lower, and a subsidy to agriculture stands slightly above 30% of total subsidies, but with a tendency to increase over the past two years.*

*This paper, through a comparative analysis of public expenditures for agriculture in Serbia and the EU countries (both developed countries and the countries in our immediate surroundings), shows the relevance and importance given to agriculture, due to its development opportunities. Serbian agriculture can be the engine of economic development and this is supported by the fact that the projection of expenditures for agriculture in the medium term has a tendency to rise.*

**Keywords:** *agricultural subsidies, budgets, Serbia, EU.*

**JEL:** *Q14.*

### Introduction

Current economic conditions characterized by globalization, scientific and technological development, disturbing ecological situation and unfavourable demographic trends are setting new budgetary challenges that require effective implementation of budgetary policy. This requires maximum budget savings, rationalization of expenditure of funds, maximum budget control and innovation in the design of public needs and budget spending. Public expenditures through which funds are provided for certain categories of the population, but also for social and economic activities of the state, take an extremely important role in budget policy. These are transfer public expenditures that redistribute

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already created social product by transferring funds from one part of a population or economy to another part of the population or economy.

The most important category of transfer spending are transfers with social purposes (social security benefits, disability benefits, unemployment insurance), transfers to economic purposes (corporate subsidies, grants, premiums, compensation, reimbursements), interest on the public debt (repayment of public loans) inter-budget (inter-financial) transfers and transfers abroad.

Transfers to economic purposes are now present in the public finances of many modern states, and are a part of financial policy whose main task is achieving certain objectives of economic policy. Transfers for economic purposes appeared in the financial policies in the early twentieth century and their increase is particularly manifested during the First World War, during the Great Depression in thirties, during the Second World War, and particularly during the economic recession in the last decades of the twentieth century. The structure of economic transfers and transfer expenditure to economic purposes consists of donations, subsidies, bonuses, reimbursements, compensation, export primes and the like. Subsidizing of prices, agriculture reimbursement, bonus payment export, subsidy of geographical distribution of productive forces, subsidizing transport as well as other industries are all expressions of interventionist economic policies of modern states in the industrialized and developing countries (Đurović Todorović et al., 2006).

In this paper, special emphasis is put on the transfer of economic purposes, especially on the transfers in the field of agriculture.

### **Materials and methods**

The main goal of this research was to analyse the subsidy scheme for agriculture in Serbia and selected EU countries, and to present and determine its implications and trends for the future.

In order to realize the objective of the research and in order to establish causal relationships of the phenomena investigated, secondary data sources such as data published by national and international institutions (Ministry of Finance and Agriculture and the statistics of the EU), along with the use of published scientific and professional papers, have been used.

Used data include transfers with economic purposes in total and especially transfers for investments and transfers for intervention in the economy in 2013. Data of subsidies relate to total subsidies and especially subsidies for agriculture. Within subsidies in agriculture, subsidies were analysed for direct aid to farmers, rural development and market measures in 2012. In the period from 2003 to 2013. the trends were given for subsidies from the budget of the Republic of Serbia and their structure.

On the basis of collected data, a combination of scientific methods that best fit the defined goal of the research have been applied in this paper: an interdisciplinary approach, the historical method, inductive method, deductive method, the method of analysis and synthesis, as well as the method of description and comparison.

## Results and discussion

### *Structure of economic transfer*

Economic transfers are the funds from the budget used for the construction of commercial buildings, for enhancing exports, encouraging production, improvement of living standards, environmental protection etc. They may occur in the form of investment in economy and intervention in economy (various forms of export incentives, compensation, reimbursements, bonuses, subsidies, grants) (Babić, 2013).

Out of total public expenditure in the EU, in 2013, an average of only 1.2% of GDP was invested in the intervention in economy, while the capital investment was 2.2% of GDP. Economies of the EU countries are still having problems that are a consequence of the economic crisis, so that those allocations are at very low levels.

The following table (Table 1) shows that out of the observed EU countries in 2013, more funds for transfers to the economic purposes were allocated to the countries of Central and Eastern Europe than to those of Western Europe, with larger amounts allocated for investments rather than for the intervention in the economy. The largest investments were in Bulgaria, Hungary, Poland and Romania, with the largest resources for intervention in developed EU countries (Belgium, Denmark and Austria).

**Table 1.** Transfers to economic purposes and their structure in selected EU countries and Serbia (in 2013, in % of GDP)

Country	Transfers to economic purposes		
	Total transfers	Investment in the economy	Intervention in the economy
EU-27 average	3.4	2.2	1.2
Belgium	4.2	1.6	2.6
Denmark	4.9	2.3	2.6
Germany	2.5	1.6	0.9
France	4.7	3.2	1.5
Austria	4.4	1.0	3.4
Sweden	4.9	3.3	1.6
Great Britain	2.6	2.0	0.6
Czech Republic	4.8	2.8	2.0
Bulgaria	5.3	4.1	1.2
Hungary	5.4	3.9	1.5
Poland	4.3	3.9	0.4
Romania	4.8	4.5	0.3
Slovenia	4.7	3.7	1.0
Slovakia	3.2	2.1	1.1
Serbia	4.8	2.3	2.5

Source: Eurostat, 2014.

The highest annual growth rate of GDP in 2013 - 3.5%, was recorded in Romania as the result of expenditures for economic purposes that amounted up to 4.8% of GDP and was higher than in most other countries. The high growth rate of GDP was recorded in Poland and Sweden, and was 1.6%. Regardless of the fact that Bulgaria and Hungary have higher allocations for expenditures with economic purposes (over 5% of GDP) growth rate of GDP in Bulgaria was 0.9% and in Hungary 1.1%, but this is extremely important because in prior years this indicator was declining. In the coming years further growth of GDP is expected, that could be the result of investment activities (Eurostat, 2014).

In Serbia, GDP growth of 2.5% was recorded in 2013, and the budget allocations of the Republic of Serbia for encouraging economic development in 2013 amounted to 4.8% of GDP, or 2.3% of GDP for investment and 2.5% of GDP for intervention in the economy (MFRS, 2014).

### *Economic subsidies in agriculture*

A subsidy is defined as a government action that lowers the cost of production, encourages the production of certain products or lowers the price paid by consumers (Mulas-Granados et al., 2008). Agriculture today is the economic area in which a number of countries is implementing agricultural policies using the subsidies provided by the state's budget. Economic subsidies in agriculture are incorporated in the financial policy of a large number of modern states. The reason is that in a number of countries, agriculture and its productivity are lagging behind the development of industry. Another important reason is that the nature of agricultural production is such that it depends on a number of natural conditions. That is why the state needs public finance to subsidize the prices of various agricultural products, to approve reimbursements when purchasing fertilizers, premiums for the production of some cereals, milk, meat, etc. (Jovanović, Đurović Todorović, 2003).

In the European Union the biggest part of budget is spent on agriculture and rural development, but expenditures for agriculture tend to decline. The EU budget for agriculture in the Common Agricultural Policy (CAP - Common Agricultural Policy) in 1984 amounted to about 71% of the total Community budget. In 2005 these costs fell to about 42%, and due to other priorities agricultural community budget declined in 2013 to only 33% of the total EU budget. Out of more than 158 billion EUR of the total budget, slightly over 57 billion EUR was spent on agriculture (Prokopijević, 2009).

The EU budget for agriculture is formed by payments of member-countries for this purpose. The European Community rebalances these payments so that the member-countries get back more or less the amount of the funds invested as a refund from the budget. The most countries receive increased funds from the common EU agricultural budget (compared to the amounts paid into the common agricultural budget), while Germany and the Netherlands, for example, pay a higher amount than the amount they get back from the EU budget for this purpose (Karolić, 2010b). The most of the funds from the EU agricultural budget for individual member-countries are constructed

by their own individual payments to the budget, with a smaller or a larger allowance (European Communities, 2007).

**Table 2.** Subsidies for agriculture from the EU budget (in selected EU countries, 2013)

Country	The subsidy per hectare (in EUR)	Direct aid to farmers (%)	Rural development (%)	Market measures (%)
Greece	530	75.6	22.3	2.1
Netherlands	620	81.5	10.2	8.4
Denmark	360	89.3	10.1	0.6
Germany	437	77.4	21.1	1.5
Austria	525	55.9	42.2	1.9
France	290	80.6	12.9	6.4
Hungary	335	64.8	31.5	3.7
Bulgaria	190	53.0	42.4	4.6
Romania	125	42.2	52.9	4.8

Source: Eurostat, 2014.

At the EU level, the budget for agriculture is divided into three parts: the direct aid to farmers, which is an average of about 70% of total payments, rural development is on average about 20% and about 10% of the payment goes to market measures. This distribution of funds and the amount of agricultural subsidies is not the same for all EU member states, as shown in the previous table. Netherlands received the highest subsidies per hectare in the form of direct aid to farmers, which is at approximately the same level in Denmark. On the other side, Germany, France, Bulgaria, Austria and Romania get the highest subsidies for rural development.

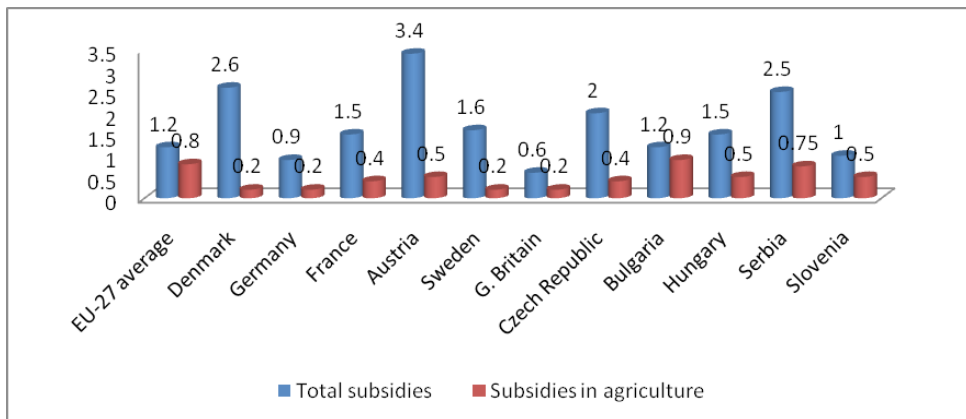
As the total EU budget for agriculture (for various types of support to agriculture) is divided by the total surface of agricultural land (175 million hectares), so it comes to the average subsidy of approximately 330 EUR per hectare (Eurostat, 2014).

Common European food market (excluding customs duties), with unequal agricultural subsidies, leaves very serious consequences in the countries - members in which farmers have considerably less subsidies (which is generally the case with the former socialist countries). High subsidies in major EU countries lead to low food prices in the market, lower than the actual cost of production - and that is why farmers in countries with low agricultural subsidies, abandon the land and sell it to foreigners and speculators. So, even the countries that have always met their own food needs now become food importing countries. Even in the EU countries that have high subsidies the possibility of increasing the impact of farmers in the total food chain, or a larger ownership share of primary production in the higher stages of processing and distribution of food is being considered increasingly. In some EU countries, direct payments to farmers from the EU budget make up two thirds of farmers' earnings, or about half of their total income – which puts their existence, in terms of reducing the current subsidy, into question (Euractiv, 2013).

High subsidies in developed countries were for many years focused on achieving the highest possible yield, which resulted in depletion of agricultural land and large environmental pollution of water, soil and air, as well as harmful effects on climate change (Karolić, 2010a). Countries in transition face great limitations, because a large share of employment in agriculture, budget restrictions and low credit potential do not allow placing of income transfers to farmers to the forefront (Popović, Katić, 2007).

If we observe the total grants and subsidies in agriculture as % of GDP, as shown in the following chart, we can see that the observed proportion of EU agricultural subsidies in total subsidies is extremely low in Denmark, France, Sweden, and the highest is in Bulgaria. In Serbia, the subsidies in agriculture are at the level of 0.75% of gross domestic product. Having in mind that 2.5% of gross domestic product is dedicated for total subsidies from the budget, it can be concluded that 30% of total subsidies goes to agriculture. (MFRS, 2014)

**Chart 1.** Total grants and subsidies in agriculture in selected EU countries and Serbia (in 2012, in % of GDP)



Source: Eurostat, 2014.

The basic factor for the development of agriculture in Serbia is the interdependence of agrarian relations and the agrarian structure as well as normative definition of new concepts and innovative agriculture development strategy, based on the acquisition of new knowledge and application of new technologies (Pejanović, 2009). This concept of the agricultural development of Serbia is based on knowledge as a basic premise of building an innovative economy and a society as a whole (Bošnjak, 2005).

Agriculture and village in Serbia have a very important place in the overall economic development of the country, especially in the implementation process of transition reforms. The role of knowledge in rural development is important for agriculture in Serbia since the EU is moving to the knowledge based economy, which is the key to competitive economy (Janković, 2009). In this sense, agriculture is one of the national priorities in science and technology, and includes (MSTDRS, 2010):

- research and development, application of new enzymes and microbes in bioprocesses, new products, biomass production,
- evaluation and use of cultivated and wild genetic resources through conventional and molecular breeding methods to obtain productive varieties / hybrids / breeds, which will serve as a base for the production of safe, functional, nutritional and specific foods,
- advancement of knowledge in the field of sustainable management, production and use of biological resources,
- development of new technologies and products in the food industry and technologies based on traditional products, and
- bio-rational utilization, increase of fertility, remediation and soil protection.

**Table 3.** Subsidies from the budget of the Republic of Serbia in the period 2003-2013 (in mill. RSD)

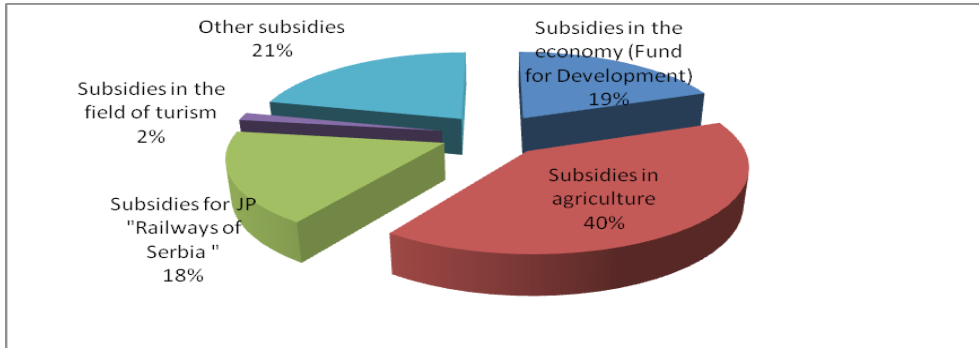
Year	Subsidies in the economy (Fund for Development)	Subsidies in agriculture	Subsidies for JP "Railways of Serbia"	Subsidies in the field of tourism	Other subsidies	Total
2003	8,308.2	7,309.9	10,092.7	89.5	4,923.3	30,723.6
2004	6,575.0	13,022.0	8,948.7	152.1	6,200.4	34,898.2
2005	4,990.0	8,961.2	8,050.3	343.1	6,795.5	29,140.1
2006	4,106.5	11,180.7	8,893.5	920.9	6,650.4	31,752.0
2007	3,258.0	12,754.3	10,600.0	1,738.3	7,902.0	36,252.6
2008	3,931.8	25,309.9	11,123.0	2,581.9	6,428.3	49,374.9
2009	3,519.8	16,694.3	12,691.1	1,588.2	6,381.8	40,875.1
2010	4,192.0	22,863.9	12,400.0	2,524.9	7,530.6	49,511.3
2011	3,730.0	18,020.1	16,055.3	2,872.3	15,600.0	56,277.7
2012	23,975.8	29,547.1	13,810.0	2,500.9	16,764.0	86,597.9
2013	14,434.1	29,866.0	13,065.0	1,121.5	15,799.0	74,258.6

Source: MFRS, 2014.

The previous table shows the trends of subsidies in the Republic of Serbia in the period 2003 to 2013, as well as their structure. Dominant share in the structure of subsidies are subsidies in agriculture, whose share of the total subsidy exceeds 30%. Regardless of the dominant share in total subsidies, agricultural subsidies, in 2011 were 26.8% lower than in 2010, with a decline recorded in 2009 compared to 2008 as well.

Even though the total subsidies declined in 2013 compared to 2012, one can see the significant increase in subsidies for agriculture. They grow from 30% of total subsidies in 2011 to just over 40% in 2013. If we compare the amount of 330 EUR per hectare - the amount of average subsidies in the EU, with subsidies of 12,000 dinars (6,000 per hectare and an additional 6,000 with receipts displaying) paid in Serbia in 2014, we can see that the allocations for agriculture are reduced, given that subsidies are three times lower (Službeni glasnik no. 8, 2014).



**Chart 2.** Structure of subsidies from the budget of the Republic of Serbia (in 2013, in %)

Source: MFRS, 2014.

Total subsidies declined in 2013, as well as subsidies in other sectors of economy, while the subsidies for agriculture recorded a slight increase. This significant increase in spending on agriculture was conditioned by the reduction of subsidies for PE "Serbian Railways", which, until two years ago, were slightly lower than those for agriculture. It is important to point out that, comparing to 2012, in 2013 subsidies in the field of tourism were more than halved. This could have negative consequences, considering the development opportunities of tourism in Serbia, especially rural tourism, which in correlation with agriculture, could be an important factor of the development. The Republic of Serbia has rich natural resources that could be valuable for the development of rural tourism. Diverse plant and animal world, many natural rarities, the existence of unpolluted water resources, clean air, good climate, represent a significant potential for the development of rural tourism. (Radović, 2013)

The crisis in Serbian agriculture has been present for a very long time. The development of agriculture is burdened by chronic problems due to the absence of systemic and continuous measures of economic policy. The causes of the crisis are numerous, and the result is permanent unfavorable economic situation in agriculture (Pejanović, Njegovan 2009). In order to promote agriculture and reduce rural poverty, it is necessary to improve the system of subsidizing agriculture. Land area related subsidies should be objectified and fixed subsidies recipients should be checked for their assets (Ristić, 2013). Creation of new commercial farms has to meet the needs of a modern market economy, and the financial support for projects in rural areas should assist the implementation of new technologies, development of export-oriented production program and it should increase competitiveness (Đekić et al., 2011). This would reduce the transfer of agricultural population into non-agricultural activities (Simović et al., 2009).

According to development projections of the Republic of Serbia in the next five years, significant growth in GDP is expected by 2017, which would create space for growth of funds intended to support agriculture. The plan is that support goes in three levels: direct payments and measures of market-price support, support to rural development and support for general services, including veterinary and plant protection (MAFWMRS, 2014).



Subsidizing of inputs is currently the dominant form of support and it has a positive impact on reducing the cost and on the increase of production, but does not comply with WTO rules, because of the direct effect it has on production and consequently on the market (Radović, 2009).

Therefore, the next budget projects a reduction of funds for this purpose, and the funds will be directed to the growth of direct payments per hectare and per animal, with a strong emphasis on the conditioning support by fulfilling cross-compliance rules. Support to subsidize fuel (Blue Diesel), an allowed form of state aid to agriculture in other countries, could be excluded from reduction. (MAFWMRS, 2014)

The vision of agricultural development, as well as development of rural areas in Serbia reflects the projected state of agricultural sector that we want to achieve in the next decade, and as such it predicts (MAFWMRS, 2014):

- that in 2024, Serbian agriculture becomes a sector the development of which is based on knowledge, modern technologies and standards that offer innovative products to both local and demanding foreign markets, and which ensures a sustainable and stable income for the manufacturers
- that, natural resources, environment and cultural heritage of rural areas are managed in accordance with the principles of sustainable development in order for rural areas to become an attractive place for young people, and other rural residents, to live and work.

### **Conclusion**

Transfers with economic purposes are the funds in the state budget opt for achieving rapid economic development in general and for the achievement of the objectives of economic policy.

A large amount of the EU budget is directed to agriculture, and when the total EU budget for agriculture (for various types of support to agriculture) is divided by the total area of agricultural land in the EU-27, the result is that the average amount of subsidies is approximately 330 EUR per hectare.

At the EU level, the budget for agriculture is divided into three parts: the direct aid to farmers, which is an average of about 70% of total payments, rural development is on average about 20% and about 10% of the payment goes to the export subsidies to companies that export food. This distribution of funds and the amount of agricultural subsidies is not the same for all EU countries. Greece receives the highest subsidies per hectare, direct aid to farmers is at approximately the same level in the Netherlands, Denmark, Germany, France and Hungary, and Bulgaria and Romania get the most for rural development.

Subsidies for agriculture make up about 60% of total subsidies in the EU, but there are big differences between countries. The share of agricultural subsidies in total subsidies goes from extremely low levels in Denmark (8%) to the highest level in Bulgaria, where agricultural subsidies compose 75% of total subsidies.

Situation in Serbia is not that good because the subsidies per hectare are three times lower than in the EU and the subsidies in agriculture consist about 30% of total subsidies. However, there is an increase tendency in the last two years, so in 2014, this share rises to 40% of total subsidies.

Agriculture and villages in Serbia take a very important place in the overall economic development of the country. The role of knowledge in rural development is important for agriculture in Serbia since the EU is moving to a knowledge-based economy, which is the key to competitive economy. This means that agriculture is one of the national priorities in the fields of science and technology.

In order to improve agriculture and to reduce rural poverty, it is necessary to improve the system of subsidizing agriculture, but also to increase the resources intended for supporting agriculture. Subsidy funds should certainly increase, regardless of the form of support. Their increase is planned in the following medium term for which the GDP growth, which will open the way for greater support for agriculture, is projected.

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## EKONOMSKE SUBVENCije U OBLASTI POLJOPRIVREDE

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### Sažetak

*Značajno učešće u ekonomskim transferima čine sredstva koja se usmeravaju u poljoprivredu. Veliki deo budžeta EU se usmerava u agrar, a prosečan iznos subvencija u EU- 27 je 2013. godine iznosio približno 330 eura po hektaru. Od ukupnih subvencija u EU, na subvencije za poljoprivredu odlazi oko 60%. Stanje u Srbiji je znatno lošije jer su subvencije po hektaru tri puta niže nego, a za subvencije u poljoprivredu se izdvaja nešto iznad 30% ukupnih subvencija, ali sa tendencijom porasta u poslednje dve godine.*

*U ovom radu, uporednom analizom ovih izdataka za poljoprivredu, u Srbiji i u zemljama EU (kako razvijenih, tako i zemalja našeg najbližeg okruženja) pokazano je kolika se važnost i značaj pridaje poljoprivredi, s obzirom na njene razvojne mogućnosti. Poljoprivreda Srbije može biti pokretač privrednog razvoja, a u prilog tome ide i činjenica da projekcije izdataka za poljoprivredu u narednom srednjoročnom periodu imaju tendencije porasta.*

**Ključne reči:** subvencije za poljoprivredu, budžet, Srbija, EU.

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