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REGIONAL ASPECT OF CONSEQUENCES OF WORLD ECONOMIC CRISIS IN AGRICULTURAL SECTOR

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Abstract

As stated in the draft of National Program of Agriculture in Serbia from 2010 to 2013, „agriculture has been recognized as one of the main strategic directions of development, as majority of the population, both rural and urban, see it as the greatest development opportunity of Serbia“. The main characteristics of Serbian agriculture for many years, and also its main problems are: volatility of yield and production volume, slow moving towards extensive agricultural production, low purchasing power of farmers as a result of low incomes in agriculture, price disparities, insufficient agricultural budget which is one of the lowest in Europe, and the increased number of elderly households in rural areas as a result of reduced number of farmers. With the advent of the economic crisis, many of these problems have deepened. In this paper, we analyzed the global economic crisis through several indicators: participation of the budget for agriculture in the overall budget of the country, foreign trade in the agricultural sector, and wages in this sector. Compared to Croatia, Slovenia and the European Union, it was noted that Serbia significantly lags behind these countries. However, forecasts and planned investments in agriculture provide an opportunity to alleviate the negative development trend of agriculture in Serbia.

Key words : *crisis, the agricultural sector, wages, credits, agricultural budget.*

Consequences of Global Economic Crisis in the Agricultural Sector

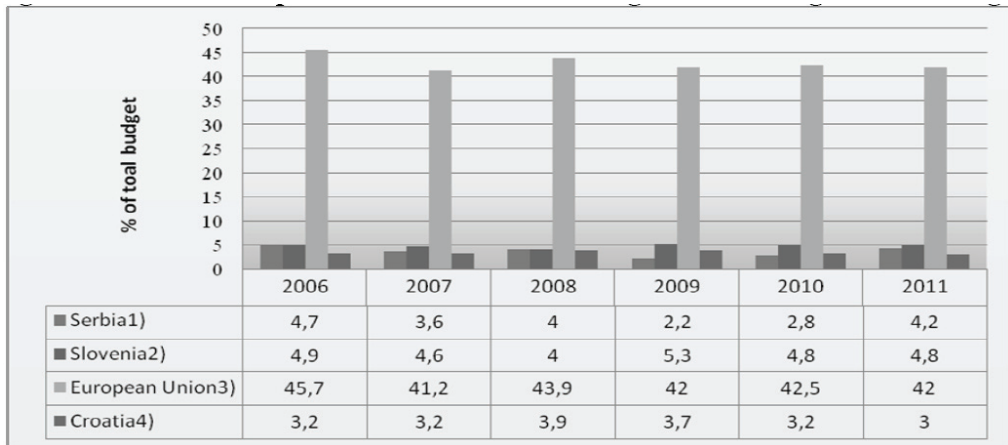
As a result of the global economic crisis and reduced interest of foreign investors, the value of foreign investment in 2009 declined dramatically. The negative effects of the global economic crisis became evident when comparing the first six months of 2009 with the same period in 2008. Gross and net inflow of foreign investments has decreased by 75% in 2009. In addition to foreign investment, the level of domestic investment has also decreased. The economic crisis affected the agriculture sector where reduction

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in investment is evident, as well as reduced availability of financial resources, and reduced predictability in the business.

Budget allocation for agriculture in conditions of crisis is of great importance. One of the reasons for that is in generally difficult access to finance for investment, as well as in support in the environment that makes business and distribution difficult. The budget for agriculture in Serbia is very modest, and in the crisis period it is nearly halved. In budget revision for 2009, the budget for agriculture amounted to 2.2% of the total budget compared to the 2008 when it was 4% of the total budget. In 2010, agricultural budget has been increased, and predictions are that in 2011 it will amount to 4.2% of total budget spending. Reasons for increased agricultural budget are: *the need to increase the competitiveness of agriculture, investments in rural development including environmental protection, the need to increase support to agricultural producers, which is on a very low level in comparison to competing countries.*²

Figure 1. Achieved and planned level of share of the agricultural budget in total budget



Source: 1) Nacionalni program poljoprivrede Srbije 2010-2013., Republika Srbija, Ministarstvo poljoprivrede, šumarstva i vodoprivrede, maj 2010.; 2) http://www.uradni-list.si/files/RS_2009-099-04371-OB~P002-0000.PDF; 3) http://europa.eu/pol/financ/index_en.htm; 4) <http://www.mfin.hr/hr/proracun>

In Slovenia, 2009 saw an increase in budgetary allocations for agriculture. This figure indicates that Croatia is in worse situation than Serbia except 2009 and 2010. In 2009, the European Union made a slight reduction in the agricultural budget, but the predictions state that this level of appropriations will continue in the current and in the next year. However, in comparison with neighboring countries, the nominal allocation for agriculture in Serbia is extremely small, as can be seen in Figure 1. In 2009, Serbia

² According to the „National programme of agriculture in Serbia 2010-2013.”, Republic of Serbia, Department of Agriculture, Forestry and Water Management, May 2010.

allocated around 164 million euros for agriculture, while Croatia allocated around 635 million euros and Slovenia around 487 million euros for agriculture.

Exports of agricultural and food products is still of great importance for export policies of the country as it participated with 23.2% in the country's total exports in 2009, and with as much as 31.3% in 2008, according to the Table 1. Agriculture is the only sector of the economy which recorded a surplus in balance of payments during the economic crisis. However, there has been no real improvement in the agricultural sector. Increased share of agriculture in total exports is contributed to bilateral agreements with countries in the region (CEFTA), duty-free trade with Russia, as well as preferential quotas for exports to the EU.

Table 1. Share of agriculture in total exports and imports

| Year | 2005 | 2006 | 2007 | 2008 | 2009 |
|------------------------|------|------|------|------|------|
| Share in total exports | 20,3 | 19,4 | 18,9 | 31,3 | 23,2 |
| Share in total imports | 7,4 | 6,9 | 6,1 | 6,4 | 8,4 |

Source: Nacrt strategije ruralnog razvoja 2010-2013., Republika Srbija, Ministarstvo poljoprivrede, šumarstva i vodoprivrede, august 2009., p.57.

As for **wages in the agricultural sector**, nominal wage growth was reported during the crisis. However, there was a drastic reduction in real wages as a result of inflation impairment. From Table 2, it is evident that there has been a reduction in nominal wages in the agricultural sector in 2009 (calculated in euros). Therefore, in comparison with other years, 2008 were exceptionally good for agricultural incomes and 2009 is in line with trend.

Table 2. Wages in the agricultural sector

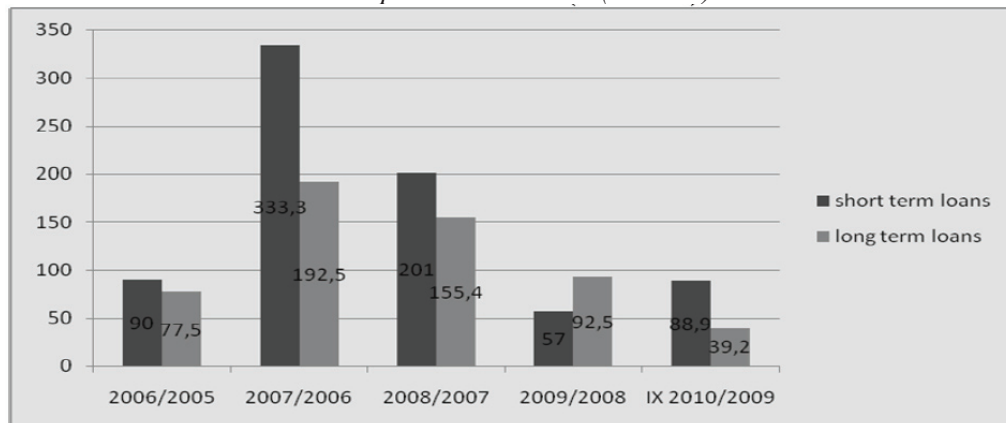
| Year | 2005 | | 2006 | | 2007 | | 2008 | | 2009 | |
|--------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| | Gross | Net | Gross | Net | Gross | Net | Gross | Net | Gross | Net |
| Serbia (in RSD) ¹ | 20.301 | 13.835 | 25.951 | 17.683 | 29.680 | 21.244 | 37.204 | 26.696 | 38.421 | 27.582 |
| Serbia (in EUR) | 244,6 | 166,6 | 328,5 | 223,8 | 371 | 265,5 | 456,5 | 327,5 | 408 | 293,2 |
| Croatia (in EUR) ² | 680,9 | 499,7 | 762,1 | 552,4 | 834 | 601,5 | 902 | 649,3 | 901,5 | 652,6 |
| Slovenia (in EUR) ³ | 947 | - | 963 | - | 1078 | 700,5 | 1196 | 778,7 | 1198 | 804 |

<http://webrzs.stat.gov.rs/axd/zarade.php?pok=2&Sifra=0014&izbor=tabela;> 2)
Source: 1) RZS, Prosečne zarade po sektorima delatnosti 2002-2009., Republika Hrvatska - Državni zavod za statistiku, Statističke informacije 2010, Prosječne mjesečne plaće po područjima NKD-a 2002., <http://www.dzs.hr/>; Hrvatska narodna banka, Statistika tečaja, <http://www.hnb.hr/tecajn/htecajn.htm>, 01.09.2010; 3) Statistical Office of the Republic of Slovenia, Average monthly gross and net earnings by activities (SDK 2008), http://www.stat.si/eng/tema_demografsko_trg.asp, 02.09.2010.

Compared to Croatia and Slovenia, Serbia significantly lags behind in wages in agricultural sector. Wages in agricultural sector in Croatia are more than two times higher than in Serbia, and in Slovenia they are almost three times higher. Also, these countries recorded a trend of increased earnings in agriculture.

During the global economic crisis, there was a **reduction in lending activity** as a result of increased market risk. Conditions for obtaining loans have become less favorable due to the increase in interest rates. Banks are less interested in giving loans in order to avoid high risks. Therefore, the economic crisis affected the possibility of lending in two ways: by reducing the volume of loans, and by reducing the producers' opportunities for taking a loan. The reduction of lending activity in agriculture is the result of certain characteristics that are related to the sector. During the crisis there was a change in the strategies of banks, as well as insufficient funds for lending, which are approved by the Ministry of Agriculture, Forestry and Water Management of Republic of Serbia.

Figure 2. Agricultural loans in Komercijalna Banka a. d. Belgrade for the period 2006-2009 (in index)



Source: Credit Bureau

The data analyzed for „Komercijalna Banka a.d. Beograd“ (region of southeastern Serbia) on the Figure 2, recorded that in 2005 and 2006 credit structure for agriculture only included loans from the Ministry of Agriculture, Forestry and Water Management.

In 2007, credit structure included loans from the Ministry of Agriculture, Forestry and Water Management, and loans from "Komercijalna Banka a.d." assets, while in the 2008, 2009 and 2010 there were no funds from the Ministry, so approved loans for agriculture came only from the Bank's own assets.

Table 3. The placement risk of agricultural loans in Komercijalna Banka a. d. Belgrade (in %)

| Year | 2007 | 2008 | 2009 | IX 2010 |
|------------------|------|------|------|---------|
| Long term loans | 2 | 7 | 14 | 18 |
| Short term loans | - | - | 19 | 2 |

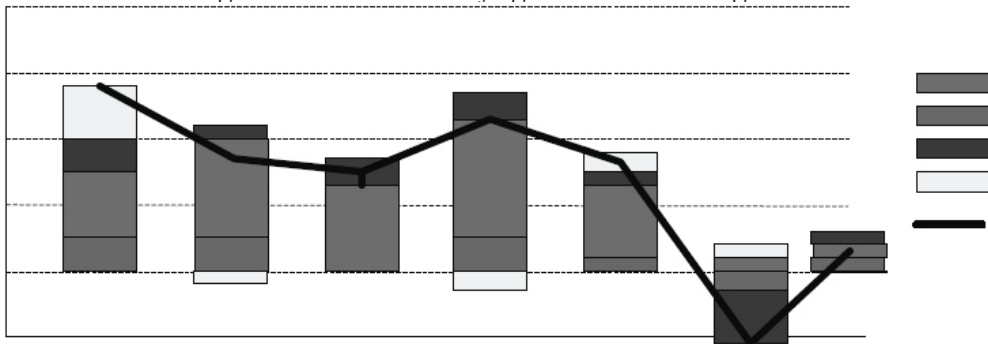
Source: Credit Bureau

Since there was a significant reduction of placement risk of agricultural loans in 2010 (up to September) in terms of short-term loans, that fact was immediately reflected on the increase in the number of approved loans. In the long-term lending, the rate of risk continues to grow, as can be seen in Table 3.

Prospects of Agriculture in Serbia in Terms of Crisis

There is a perception that agriculture played an important role in terms of crisis, but that the driving forces of the future Serbian development are likely to be in the service sector, construction and industry, all of which should constitute a major part of GDP. As indicated in the National strategy of sustainable development, emphasis will be placed on the economy based on knowledge.

Figure 2. Contribution of agriculture to GDP growth



Source: Jelašić R., National Bank of Serbia, Belgrade, 16. Jun 2010.

Low level of participation of agriculture in GDP is the development indicator of a specific country. Of course, this does not mean that agriculture will not continue to grow, and that it will not be an important factor in the export policy of the country, and in general, an important sector that employs many people and forms the basis of stability in times of crisis.

One of the recommendations to mitigate the crisis and also the first measure of state intervention is to stimulate lending activity in order to secure the purchase, farmers' investments, funding for production and commerce, and to improve competitiveness. It is therefore very important for the state to support farmers who are willing to borrow

in times of crisis or who are willing to invest their own funds in the sector. It is known that investment activity is small in times of crisis.

Agriculture of Serbia has a **low competitiveness** compared with other countries, primarily due to low investments. It is therefore necessary to undertake a series of measures in order to improve: efficiency of production, product quality, marketing of agricultural and food products, the situation in the capital and land markets, the level of education and professional training and so on. Therefore, the Ministry of Agriculture should take adequate measures that will lead to sustainable agriculture that is internationally competitive.

In the draft of Rural Development Strategy of Serbia from 2010 to 2013, a vision for the agricultural sector is given, and it includes the development of dynamic and competitive agriculture that produces quality products, provides income to agricultural households and meets the customers' needs, but it also works together with the food processing industry, makes sustainable use of natural resources, and contributes to environmental protection. The basic strategic objectives are: to improve competitiveness, to ensure environmental protection, to promote local initiatives to improve competitiveness, to improve quality of life and stimulate the expansion of economic activities in rural areas. To achieve these objectives, the Strategy of Rural Development provided the following activities: establishment and improvement of the organization of agricultural producers; support for the farms so they can meet market challenges, support for the enterprises that are processing agricultural products so that they can improve their processing systems and reach the required standards of food quality and food safety.³

Also, **Serbia's accession to the European Union** will lead to raised agriculture competitiveness by establishing and improving the functioning of institutions and by the introduction of a series of regulations and standards. Other measures to be taken in order to increase competitiveness are: development of a credit line in cooperation with local authorities with the creation of local funds for agricultural development, agricultural support projects through investment and credit support, increased level of subsidies, support for the introduction of standards, promotion of Serbian agriculture on the international trade shows, promoting the work of advisory services, supporting the association of agricultural producers in cooperatives and other forms of association (clusters, local action groups, NGOs).⁴

Special features are provided by IPARD (Instrument for Preaccession Assistance – Rural Development) fund, which is a fifth component of IPA (Instrument for Preaccession Assistance), but not all requirements are met for obtaining them. Administration for agricultural payments was established, and it is one of the key institutions for access to EU funds and the provision of subsidies to agricultural

3 The draft Rural Development Strategy 2010-2013., Republic Serbia, Ministry of Agriculture, Forestry and Water Management, August 2009., Pp. 146.

4 According to the National programme of agriculture in Serbia from 2010-2013, Republic Serbia., Ministry of Agriculture, Forestry and Water Management, May 2010

producers. A network of advisory services was also established, and a large number of laws were passed in the field of agriculture (in 2009, 15 laws were passed, and a dozen more in early 2010).

One of the priorities is to prepare agriculture for the integration of Serbia into the EU. Economic objectives of the Copenhagen agreement, which defines the criteria for entry into the community of EU countries, include:

- Functioning market economy and the ability to integrate into market economies of other member countries.
- The ability of conducting business in terms of competition.
- Adjustment to EU rules and practices.

There is an ongoing implementation of the Stabilization and Association Agreement with EU, which implies the formation of a free trade zone between the EU and the candidate, and the process of harmonizing the legal framework of the country with the EU acquis. In the field of agriculture, the main activities the ministry will work on in the period prior to the full EU membership are: *harmonization of legislation, the establishment of new institutions, personnel reorganization and ongoing training of employees.*

Accession to the WTO is also a priority. This means that it is necessary to adjust agricultural domestic support policies and trade rules to WTO rules. Along with the process of joining the EU, Serbia is negotiating for membership in the WTO. After receiving the status of full member of WTO, Serbia can expect increased inflow of foreign direct investment, liberalization of access to the domestic market of agricultural and food products, and reduced protectionist measures that restrict the agricultural budget funds from being allocated to measures that are not in accordance with the policy of the WTO (price subsidies, export subsidies, etc.).

Conclusion

World economic crisis, which culminated in late 2008, affected both financial and real sectors. The most important consequences of the crisis in the real sector are reflected in: reduced volume of loans, reduced inputs, lower yields, less competition, increased prices, reduced consumption, less profit etc. The role of agriculture in overcoming the consequences of the crisis is reflected in the increasing production and providing significant export revenues for the country. An important recommendation for overcoming the consequences of economic crisis and the improvement in the agricultural sector is to increase its competitiveness. To improve the competitiveness of domestic agriculture is crucial to the implementation of indirect measures of agricultural policy that reflects the investment in improvements of technological level of agricultural households, encouraging quality improvement of products, setting standards for food quality and safety. Also, it is necessary to intensify agricultural production through rational use of land fund and planning of infrastructure in rural areas.

In order to overcome the crisis it is necessary to take adequate and timely measures at state level, and on the level of economic sectors and businesses. In the

field of agriculture, a number of recommendations were given for overcoming the crisis, including: improving information and transparency of economic policy, giving the importance to agriculture in conditions of crisis that will lead to growth of GDP, providing budget support, increasing the level of competition and investment in agriculture, boosting credit activities, joining the European Union and the World Trade Organization, raising the living standard and the development of rural areas, raising the level of food safety, environmental protection and so on. So far, a few steps were taken towards the improvement of Serbian agriculture - Administration for agricultural payments was established, a network of advisory services was organized, and a number of laws were passed in the field of agriculture.

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