

COMPARATIVE STUDY AIMING THE LENDING LEVEL OF AGRICULTURE IN SOME EUROPEAN COUNTRIES

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Abstract: *The present paper analyzes the lending level of agriculture in Romania compared to Hungary and the Czech Republic, on one hand (neighboring countries) and Germany and Italy, on the other hand (countries with developed agriculture and significant support from financial institutions). Although in our country in recent years there has been noticed an improvement in agricultural lending, in the sense of increasing the total volume of loans granted, we are still far from the situation encountered in many EU countries. Compared to our country, Germany, one of the European countries with the highest level of agricultural development, allocates 3002 euros as bank loan for 1 hectare of used agricultural area, the level of bank loans for financing one hectare being thus 11.1 times higher than in the case of Romania. Italy, a country with an used agricultural area of approximately equal to Romania's one, channels to agriculture 12.6 times more loans, returning an average of 3405 euros per hectare. The Czech Republic, with an used agricultural area a little over a quarter that of Romania's, finances farms with bank loans with an average amount of 651 euros per hectare, meaning 2.4 times more. Of the analyzed countries, only Hungary allocates less of bank loans to agriculture than Romania. The average amount of which Hungarian banks lend the agricultural sector is 225 euros per hectare.*

Keywords: *bank loan, agriculture*

INTRODUCTION

One of the important issues for Romania's agriculture is represented by farmers lending. Agriculture is an activity that differs from other economic activities, because on one hand agricultural activity is conditioned by the biological developments of plants and animals with direct implications over financing systems, and on the other hand it provides food security for the population, which carries an obligation to a certain approach of financing this activity [4, 9].

Bank loan, considered the engine of an economy development [13], in the case of agriculture in our country, occupies an insignificant place within all financing sources, thus the share of agricultural loan in total of non-governmental loan, at the level of 2019, was of only 4,55%. However, there is registered an increase in absolute amount, of bank loans granted to finance agriculture, a trend observed especially after the financial crisis of 2008-2010, when banks rethought their credit portfolio, paying more attention to the agricultural sector, considered to be less affected by the crisis, and even the development of agriculture and infrastructure is considered to have led to a faster overcoming of such tough periods.

For the development and efficient functioning in a competitive environment, farms are forced to introduce innovative technologies [12], to equip themselves with high-performance machines, which are directly related to financing, primarily to the existence of own funds, but also to the issues that arise in obtaining financing sources in different forms of loan.

Several studies show the essential link established between the development, growth and good positioning of farms on the market and their bank lending. For example, [3] states the need and effectiveness of establishing a close relationship between the lending bank and the company in order to overcome financial barriers to development.

Hartshka et al., 2015 [8] find a positive association between agricultural lending and agricultural GDP growth per rural resident with additional billion in loans (about a third of the current average) associated with 7-10 percent state growth rate with this association stronger during the 1990s. Regional data confirm these results. The results indicate a positive link between credit and economic growth in rural areas in the period under review, 1991-2010, at the level of the United States of America, assigned to loans granted by financial institutions and commercial banks.

MATERIALS AND METHODS

The article is based on a study on lending level of agriculture in our country and, in comparison, the situation encountered in several European countries. The countries taken for the study were Hungary and the Czech Republic, on one hand (nearby countries) and Germany and Italy, on the other hand (countries with developed agriculture and significant support from financial institutions). The article also examines the main factors that compete to restrict farmers in obtaining bank loans that are so necessary to support their business.

In order to achieve the objective of this scientific research, the following methods have been used: the method of analysis and synthesis for the research of credits support of the primary sector (agriculture); the method of scientific foundation and comparison of the main indicators reflecting the level of agricultural lending in Romania and in the states taken into consideration for our study. These indicators refer to the amount of loans directed towards agriculture, the share of agricultural loans in total non-governmental loans, the level of bank loan that returns to one hectare of used agricultural area.

The materials which were the basis for this study were articles in the field, reports and statistics of the National Bank, as well as specialized web pages.

RESEARCH RESULTS

One of the important and at the same time limiting factors of the performance capacity of agricultural producers and, by default, of process of increasing agricultural production, is represented by the working capital, which if insufficient can be supplemented by bank loans [5, 6].

In Romania, the total volume of loans granted by credit institutions amounted to 82,488 million euros at the level of 2019, increasing by 20.3 times between the range 2000 and 2019 [17]. Of this amount agriculture receives support of around 4% in each year, with loans directed to farmers reaching 3,702 million euros in 2019. In order to have a better view of lending level of Romanian agriculture, we present below a comparative situation of loans directed towards the primary sector in Romania, Germany, Italy, the Czech Republic and Hungary.

The analyzed countries allocate on average about 4% of their total volume of agricultural loans, with a minimum recorded in the Czech Republic of 1.9% and a higher support in Italy, of 5.3%.

Table 1.

The level of lending of agriculture in Romania compared to several European countries

Countries	Bank loans for agriculture		RO:EU countries
	Million €	% of total loans	
Germany	50 179	3.6	1: 14.9
Italy	42 900	5.3	1: 12.8
Czech Republic	2 249	1.9	1: 0.7
Hungary	1 049	5.0	1: 0.3
Romania*	3 361	4.3	1:1

DE, IT, CH, HU – the reference year is 2017; RO - 2018

Source: FAO [16]

In order to better observe the actual credit support of a farmer, we calculated the amount of loans per hectare of agricultural area and thus we have obtained the situation shown in Table 2.

Table 2.

Bank loans granted per unit area

Countries	Agricultural area (ha)	Total loans for agriculture (mil. €)	Bank loans per 1ha (€/ha)	RO:EU countries
Germany	16 715 320	50 179	3 002	1: 11.1
Italy	12 598 160	42 900	3 405	1: 12.6
Czech Republic	3 453 040	2 249	651	1: 2.4
Hungary	4 670 560	1 049	225	1: 0.8
Romania*	12 502 540	3 361	269	1:1

DE, IT, CZ, HU – the reference year is 2017; RO – 2018

Source: Own calculations based on statistical data

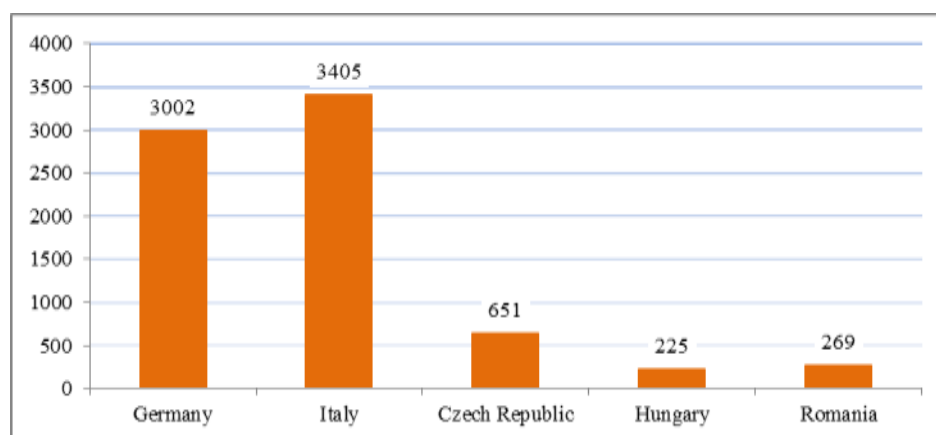
Compared to our country, Germany, one of the European countries with the highest level of agricultural development, allocates 3,002 euro bank loan for 1 ha of used agricultural area to agriculture, the number of bank loans for financing a hectare is thus 11.1 times higher than in the case of Romania.

Italy, the country with a used agricultural area roughly equal to that of Romania, channels to agriculture 12.6 times more loans, returning on average 3,405 euros per hectare.

The Czech Republic, with a used agricultural area just over a quarter of that of Romania, finances farms by bank loans with an average amount of 651 euros per ha, meaning by 2.4 times more than Romania.

Among the analyzed countries, only Hungary allocates less bank loans to agriculture than Romania. The average amount by which Hungarian banks lend to the agricultural sector is of 225 euros per hectare. The comparative situation is also shown in Figure 1.

It is also worth mentioning the fact that, in all analyzed countries, European support on agricultural area is higher than in Romania.



**Figure 1. Bank loans granted per 1 ha used agricultural area (Euro/ha)
RO-HU-CZ-IT-DE**

Although in our country over the last few years we can see an improvement in lending of agriculture, in the sense of the increase in total volume of loans granted, we are still far from the situation seen in many EU countries.

Private farms have had increasingly cumbersome access to loans compared to other economic agents in other sectors of economic activity, due to the fact that banks consider agriculture a high-risk field [1, 2]. This is mainly due to the specific characteristics of the activity carried out by agricultural holdings, namely [7, 10, 11, 14, 15]:

- long production cycles;
- discontinuity in the realization of incomes;
- a high degree of instability in the markets for the sale and recovery of obtained agricultural products;
- high risk associated with weather and natural conditions;
- failure to properly function of an insurance undertaking with a view to fast compensation of losses which can occur;
- high transaction and risk costs;
- lack of efficient management of many agricultural holdings;
- insufficient equipment and machinery to ensure the timely and quality of agricultural work;
- commercial banks require high guarantees on the loans they grant (up to 120-125% of the credit mass);
- the legal aspects of ownership of many agricultural lands are not clarified, which makes it impossible to guarantee with these lands;
- because of the demand for collateral requirements (mortgage or pledge) from banks even for short-term loans, private farms have limited access to bank loans. The idea of the mortgage of the dwelling house, the only property of the peasant that belongs to him in fact and in law, constitutes a real obstacle to the guarantee action, with adverse consequences in the lending process of agricultural holdings;
- small private farms, in general, do not have persons who have the necessary knowledge to prepare and draw up the particularly complex and bushy documentation that banks require when granting loans.

CONCLUSIONS

Commercial banks in Romania continue to have less interest in lending to small farmers. The specificity of agricultural production, the high risk associated with this sector, the profit rate in agriculture which is very oscillating from one year to another, the reduced mass of a credit, the low possibilities for anticipating future developments in

farm incomes represent factors that lead to an increase in the cost of managing this type of loan, significantly restricting the financing of agriculture through loans. In these circumstances, banks attention goes towards big firms, which provide creditworthiness and guarantees for obtaining loans.

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