

ASPECTS REGARDING THE EVOLUTION OF THE AGRICULTURAL CREDIT IN ROMANIA

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Abstract: *This research aims to identify the causes of the financing deficit in the Romanian agricultural sector. The main aspects regarding the evolution of agricultural credit are analyzed. Commercial banks are reluctant to grant credits for agriculture due to multiple factors and sectoral risks. In Romania, agricultural credits are well below the European average, if we refer to the average of the credits granted per hectare of arable land. The paper also presents the evolution in dynamics, during the years 2017-2020, of the credits granted to the main sectors of economic activity. The share of credits granted to the agricultural sector and their evolution in dynamics are identified. Also, the presence of banks in the rural area is analyzed, respectively the financing market in the rural area, compared to the urban area.*

Key words: *agricultural credit, commercial banks, financing deficit, agricultural sector, rural area*

INTRODUCTION

In the current context of the Covid-19 Pandemic, uncertainties remain about the global economic growth and the equilibrium of the international financial system [1].

In Romania, risks to financial stability have been linked to the uncertain and unpredictable legal framework in recent years [4]. European Union support for agriculture and rural development has contributed to increased funding in this area, but not to a sufficient extent [10].

The limited access to financing sources in the Romanian agricultural sector is largely due to the reluctance of commercial banks to grant credits for agriculture [3]. The increased prudence of credit institutions in granting agricultural credits is determined by several risks associated with this sector of activity [14].

The main risks identified by commercial banks concern the following aspects [6]:

- low capitalization of agricultural and rural businesses;
- multiple factors that can affect the activity of an agricultural farm, regardless of the effort made by farmers to achieve the desired results (such as: natural, institutional, social factors, legal regulations, etc.);
- the precarious financial statements of agricultural farms;
- investment projects insufficiently adapted to market conditions;
- the discrepancy between the investment projects for which the financing is requested and the capacity of the business to generate sufficient revenue to meet the payment obligations [7];
- lack of irrigation systems;
- failure to insure agricultural crops for all risk categories;
- fluctuations in the prices of agricultural products and the influence of imports;
- lack of market outlets (a large quantity of agricultural products not having the sale secured);
- lack of cadaster of agricultural lands etc.

In addition to these risk factors that generate banks' reluctance to grant credits for agriculture, other causes can be identified. The limited access of agricultural farms to bank loans is also due to the insurance guarantees required by banks, as well as the lack of flexibility in selecting these guarantees required of applicant customers [12].

In Romania, the possibility of mortgaging land is extremely difficult, especially due to the inaccuracy of the cadaster system at national level. The cost of credit and unfavorable interest rate fluctuations also influence the access to credit for agricultural holdings [9].

The reluctance of commercial banks in Romania to grant loans for agriculture is also determined by the structure of agricultural farms depending on their economic size. Since 2010, Romania ranks last in the European Union according to the average economic size of an agricultural farm. With the largest number of agricultural farms, of approximately 3,8 million, of which 88,6% with an economic size below 4.000 euros, Romanian agriculture had limited access to financing sources, especially bank loans [11]. Small-scale agricultural farms are generally unsustainable and have no vocation for bank credits.

This research aims to identify the causes of the financing deficit in the agricultural sector in Romania. The paper also presents the evolution in structure and dynamics, during the years 2017-2020, of the credits granted to the main sectors of economic activity, as well as the share of credits granted to the agricultural sector.

MATERIALS AND METHODS

The indicators reported by the National Bank of Romania, by the Central banks of the European States, as well as by the Romanian commercial banks were used in the analysis of the evolution of agricultural credit in Romania.

The following scientific research methods have been used for this analysis: data collection, classification, systematization, comparison, analysis and synthesis, induction and deduction, generalization, scientific abstraction, and the development and testing of hypotheses.

The presence of banks in Romania, in rural areas compared to urban areas, was analyzed according to the dispersion of banking agencies and ATMs, as well as according to the number of agencies and ATMs per 100.000 inhabitants.

The evolution of bank loans granted by activity sectors, in structure and dynamics, during the years 2017-2020, was analyzed from the perspective of the share of credits granted for agriculture, forestry and fish farming.

In this research, the main risks that generate the reluctance of banks in granting credits for agriculture were identified. The risk factors and the causes that generate the financing deficit of Romanian agriculture have been delimited.

RESEARCH RESULTS

At European level, the average of the credits granted per hectare of arable land is 1.203 euros. In Romania, agricultural crediting is at the level of 281 euros per hectare of arable land, well below the European average. This funding deficit is mainly due to the reluctance of commercial banks to finance agricultural activities.

The non-coverage of sectoral risks with insurance policies for primary agriculture accentuates the reluctance of commercial banks in granting credits for this sector of activity [8].

The volume of credits per hectare of arable land in Europe is shown in the Table 1. The financing deficit of Romanian agriculture is very high compared to other European countries. In France, for example, the volume of credits per hectare of arable land is 2,098 euros, while in Romania it is only 281 euros. The most generous sources of funding for agriculture are allocated by Germany, respectively 3,944 euros per hectare of arable land.

Table 1.**Volume of credits per hectare of arable land in Europe**

Item no.	Country	Credits per ha of arable land (Euro)
1.	Germany	3,944
2.	Italy	2,778
3.	France	2,098
4.	Portugal	1,823
5.	Spain	1,517
6.	Romania	281
7.	Bulgaria	211

Source: Websites of Central Banks, Eurostat [13]

It is also noted the predilection of banking activities towards the urban environment, to the detriment of rural activities. The financing market in the rural area, compared to the urban area, is presented as in the Table 2.

Table 2.**The presence of banks in Romania, in rural areas compared to urban areas**

Rural/ urban environment	Banking agencies	ATMs
Dispersion of Agencies and ATMs		
• Rural	11.6 %	11.1 %
• Urban	88.4 %	88.9 %
Agencies and ATMs per 100,000 inhabitants		
• Rural	6 %	11 %
• Urban	46 %	79 %

Source: National Institute of Statistics, Websites of commercial banks

The table above shows that only 11.6% of all branches and agencies in Romania are present in rural areas, that is only 11.1% of all ATMs at national level. Compared to the number of inhabitants, the density of agencies in rural areas is 6% per 100.000 inhabitants, compared to 46% per 100,000 inhabitants in urban areas. At the same time, only 11% ATMs are found in rural areas, compared to 79% in urban areas, per 100,000 inhabitants. All these aspects presented above, contributed to the achievement of a smaller volume of credits granted to the agricultural sector, compared to other sectors of activity such as: industry, services, and constructions. It is obvious that Romanian commercial banks are focusing on supporting urban activities. The specific risks of agriculture, as well as the difficulties in implementing insurance guarantees, have led banks to be reluctant to grant credits to the agricultural sector [5].

The evolution of credits granted by activity sectors, in structure and dynamics, during the years 2017-2020, is presented in the Table 3. The data of the table shows that of the total loans granted during the years 2017-2020, the largest share is held by the services, industry, and construction sectors. The credits granted for agriculture, forestry and fish farming have a very low share in the total loans granted by banks, respectively 4.1% in 2017 and 2018; 4.3% in 2019 and of 4.5% in 2020.

Table 3.**Loans granted by credit institutions in Romania**

- million lei -

Period/ Sector of activity	2017	2018	2019	2020
Total credits granted, of which for:	371,734	396,639	429,102	461,078
- Industry	67,502	68,590	73,038	74,639
- Services	93,751	98,685	105,465	116,845
- Construction	26,895	28,676	29,957	31,784
- Agriculture, Forestry, Fish farming	15,352	16,161	18,411	20,625
- Financial intermediation and insurance	11,637	13,415	14,905	16,340
- Public administration, Education, Health	16,558	17,734	20,116	22,936
- Individuals	140,039	153,378	167,210	177,909

Source: National Bank of Romania, Monthly Bulletin, 2021

In the analyzed period 2017-2020, the volume of credits for agriculture, forestry and fish farming increased from 15,352 million lei in 2017, to 20,625 million lei in 2020, respectively by 34.35%. This modest increase is far from meeting the need for funding in agriculture.

CONCLUSIONS

To have access to funding sources, especially bank credits, it is necessary to increase the viability of farms and the competitiveness of all types of agriculture in all regions of the country, as well as the promotion of innovative agricultural technologies [15]. The financing deficit of Romanian agriculture is very high compared to other European countries.

Among the eligibility criteria applied by commercial banks for granting credits are improving the economic performance of the applicant agricultural holdings and facilitating their restructuring and modernization [2].

The need for agricultural credits ensures an increase in the volume of investments of banks, a good management of their credit portfolio, as well as the diversification of their specific risks. The risks identified by commercial banks generate their reluctance to grant credits for agriculture.

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