

# **AGRICULTURAL CREDIT EVOLUTION – BETWEEN MYTH AND REALITY**

**Assist. Nela-Loredana CĂRĂBA- MEIȚĂ Ph. D**  
**University of Craiova**  
**Faculty of Economics and Business Administration**  
**Craiova, Romania**

**Abstract:** In the present work is presented the evolution of agriculture credits between 2007 -2015, and also an approach that refers to agriculture crediting for the years 2014 – 2020, departing from observation that agricultural credit will follow a systemic approach closely related to general policies of the European targeting agriculture will complement other sources of financing and, first of all, to support EU funding programs.

**JEL classification: G 28, G 29**

**Key words: credit, bank, agricultural, credit institutions, investments.**

## **1. INTRODUCTION**

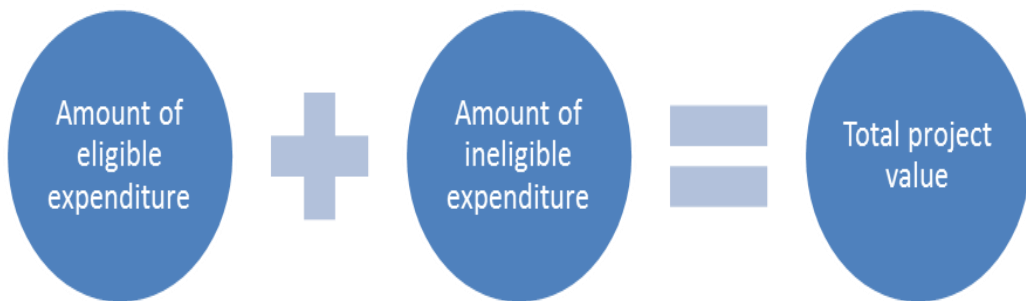
Agriculture has always been for Romania one of the most important economic sectors, having the largest share of GDP among EU countries, between 8 and 12 per cent, and food and beverage industry is a key strategic milestone of Romanian manufacturing industry, over 25% of total manufacturing.

Since Romania joined the European Union Romanian agriculture was the beneficiary of reimbursable financial assistance programs, part of multiannual programs that targeted sub-sectors of agriculture, but addressed solely realization of productive investments, or, in the Rural Development Programmes for investments in rural infrastructure.

The fact is that loans that were extended to agriculture had as direct beneficiaries in 70-80%, companies and farms that were, in turn, benefiting in the same time by the programs embodied in non-repayable financial assistance.

## **2. OBJECTIVES**

To better understand the mechanism by which commercial banks extending credit to supplement funds needed to achieve the investment objectives, subject of the grants, we must explain that the value of such a project, for ending the contract refundable financial grant has two components, as shown in figure no. 1.



*Source: own projection based on literature*

**Figure no. 1 Value Project**

Institutions which finances investment projects through grant schemes, having a source of EU funds made available under the multiannual programs always cover only the eligible costs, or sometimes amounting and in some cases this amount is settled only after ineligible expenditure (in this case the notion of expenditure must be understood strictly as payment for works and purchase of fixed assets investment and not as in accounting).

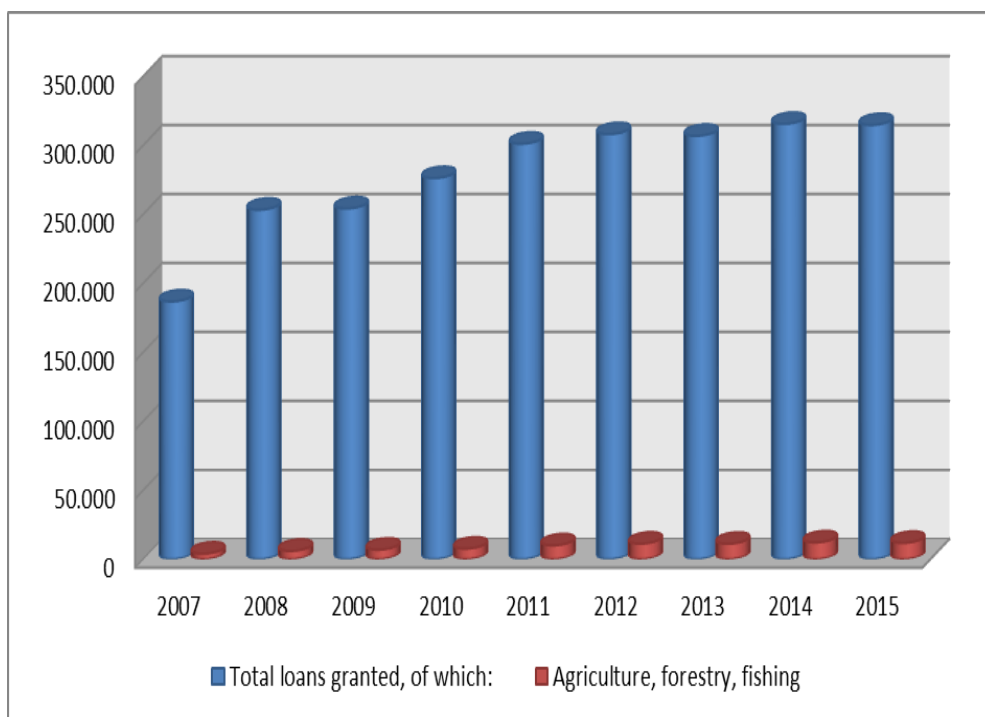
Usually, between the signing of the financing and preparing documents for granting loan to support the financing may take a period of time, during variable duration, but can stretch between 2-3 months and one year. This period is required traders to obtain approvals and agreements, contracts and organizing auctions, drawing together entrepreneurs investment projects and estimates general and objects and to update feasibility studies on which the applicant shall to obtain possibly for investment credits to finance the project.

The loan, in turn, has a slightly different structure, it can cover all items subject to finance an investment project. Banks grant loans to all the elements that are part of the project to be financed, following that the grant designed to cover contracted to repay the loan in a time of grant, usually ranging between 1 and 6 months. We can do in this case finding technique that, depending on the time of financing, the loan can be considered a source for the investment project, while the grant seen against the loan then become the main (often the only) source loan repayment. The advantage is evenly distributed to all contracting parties. For the beneficiary is a cheap source of credit that is used for short periods of time to supplement own funds. Also from this perspective we can say that funding source provides no additional cost, except for those related to completing documentation and access to funds. In the same time, the creditor banks, funds made available to beneficiaries through schemes of financial aid is most often the main source of loan repayment in the component project which is to cover the necessary funding sources corresponding amount of costs eligible under contract.

If we look from the point of view of security of investment, banks will avoid problems of agricultural market, in particular those related to the main feature of activity in agriculture, risk and uncertainty about the production, and inconvenience related to cyclicity and the inconsistency between registration and payment costs, respectively corresponding record revenues and earnings. Such placement is conducted recovered in short time, together with income from bank, the collection of interest and fees, constituting itself in an almost risk-free investment.

### 3. METHODOLOGY

The data available regarding the realization of loans and commitments by credit institutions reflects their absolute growth of Romania's accession to the European Union, confirming the above. Thus, as shown in figure no. 2 when in 2007 the total amounts awarded in the form of loans and commitments was 186.731 million lei, total commitments of awards and amounts in 2008-253.181.000 lei, which corresponds to an increase of 36% in one year.



Source: own projection based on data from the National Bank of Romania Monthly Bulletin, 2.2015, p. 60, Section Statistics

**Figure no. 2 Loans and commitments by credit institutions in 2007-2015**

Incidentally, for the same category of investments and commitments, presented their annual volume of approximately constant values, with slight increases in 2009-2012, 3% to 9%.

Please note that the figures represent both awarded as credit investments and other commitments, as regards, in particular, letters of guarantee strictly related investment projects and beneficiaries were required for participation in tender to purchase of fixed assets.

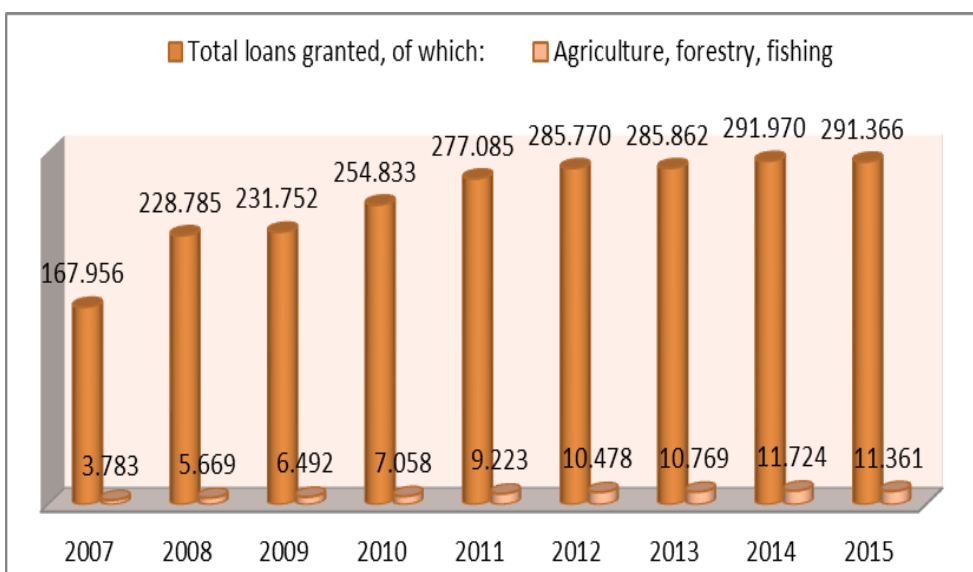
### 4. ANALYSES

Credits and banking institutions mainly undertaken strictly agricultural investments in the form of agricultural credit, have stabilized in terms of annual growth in the period 2011-2015, with an annual growth of 4-5 %. Keeping the level of investment at this level can be explained by the existence of European funds absorption

capacity which increased in real terms in much the same way, even if they did not absorb evenly to all developing regions.

The sharp rise in the period 2007-2010 is explained on one hand by the immediate market saturation, in turn justified the need for the acquisition of basic necessities machinery and equipment (tractors, combines, machinery systems), and on the other hand, by -a positive dynamic economic growth and a more pronounced for the period 2007-2009. Negative economic conditions caused by the global economic crisis has led, through direct ricochets, but also causes related to endogenous factors, stagnating growth rates in the absorption of EU funds from the years 2009-2010, which brought the decrease the growth rate of agriculture investments made by commercial banks. Stabilizing the growth rate of investment in agriculture around 3-5% annually in the period 2011-2015 correspond at least in terms of investment volume, the need for agricultural financing, resulted in the volume of approved projects from EU funds.

The loans granted by credit institutions in the agricultural sector have increased every year, from 3.783 million lei in 2007 to 9.223 million lei in 2011, followed in 2014, credits to agriculture to reach 11.724 million lei, cf. figure no. 3.

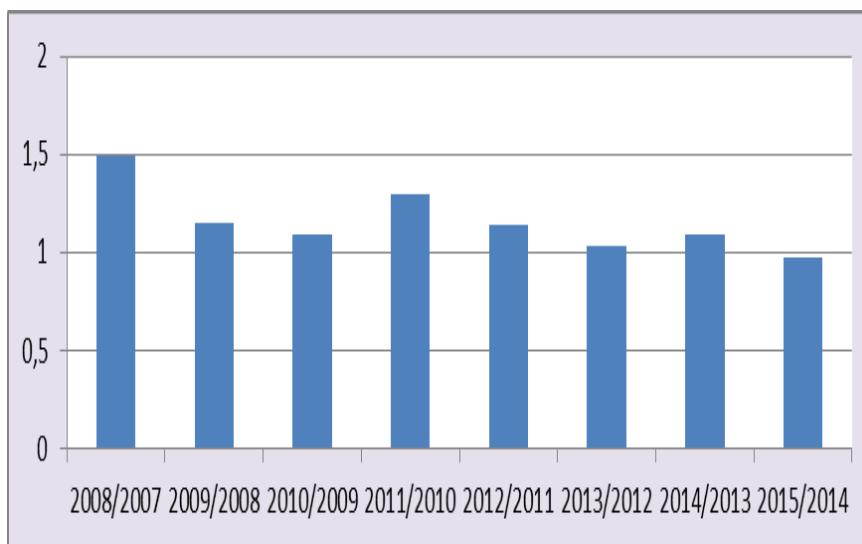


Source: own projection based on data from the National Bank of Romania, [www.bnro.ro](http://www.bnro.ro), Monthly Bulletin, 2/2015, p. 62, Section Statistics

**Figure no. 3 Credits granted by credit institutions in 2007-2015**

The value of loans granted by specialized institutions increased from 167.956 million lei in 2007 to 228.785 million lei in 2008, according to figure no. 2.22. At end of period total placement made in 2014 is 291.970 million, while after the first quarter of 2015 the volume of investments made in the form of loans amounted to 291.366 million lei.

In 2007-2013, the annual growth rates calculated based on annual volume of awards were between 0.97 and 1.49, as shown in figure no. 4.



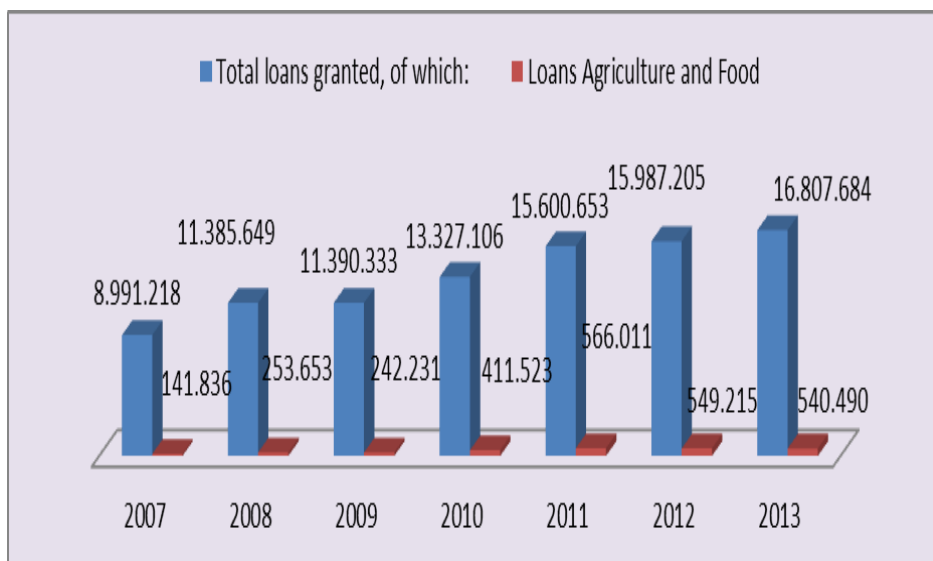
Source: own projection based on the data of the Monthly Bulletin, 2/2015, page 60, Section Statistics, National Bank of Romania

**Figure no. 4 The annual growth in 2007-2015**

Observations on granting loans agricultural sector by Romanian banking system can be deepened if we take into account the specific activity and its traditions, closely related to the relationship between banks and their respective clients, have established over the years.

We can say that, by tradition, at least for the period 1990-2000, the companies operating in the agricultural sector had accounts with priority to the former Agricultural Bank and then, due to facilities aimed at the agricultural sector, collaboration between the new Raiffeisen bank and its customer, kept the tradition develop programs and funding schemes that target agriculture and whose traders were direct beneficiaries of the agricultural industry.

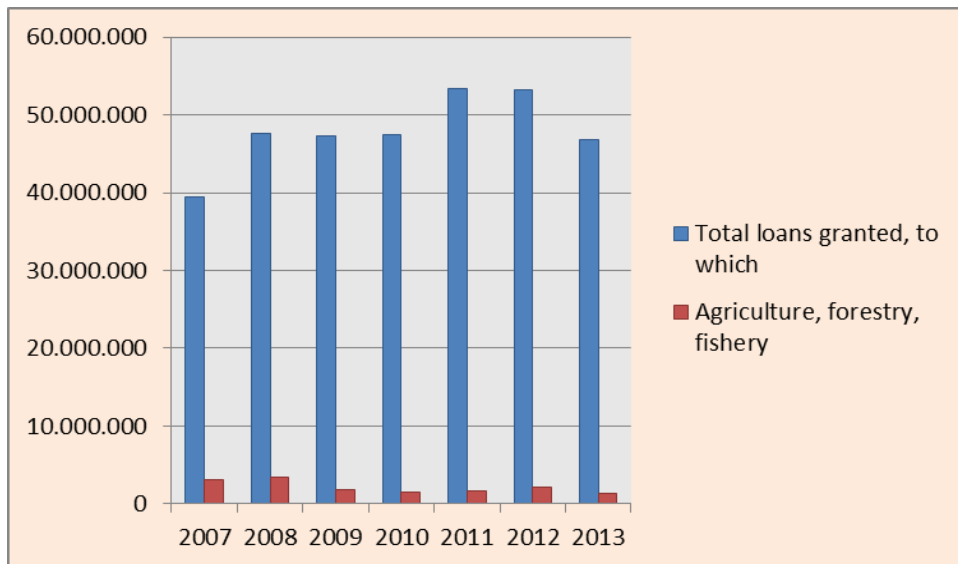
Without this observation to extrapolate the total business of the bank can not but observe that, beginning with Romania's accession to the EU, the volume of investments in agriculture Raiffeisen Bank achieved a 78% increase in the volume of investments in agriculture, from 141.836 thousand in 2007 to 253 653 thousand in 2008. Follow also a strong increase in 2010 compared to 2009 by 69% and continuing growth during 2011, when the bank recorded an increase in the volume of investments made during 2011 by 37% higher than the level of awards in 2010, in absolute terms this increase is from 411 523 thousand, to 566 011 thousand in 2011, see Fig. 5.



Source: own projection based on data taken from Raiffeisen Bank Annual Report 2013, p. 105

**Figure no. 5 Loans of Raiffeisen Bank in 2007-2013**

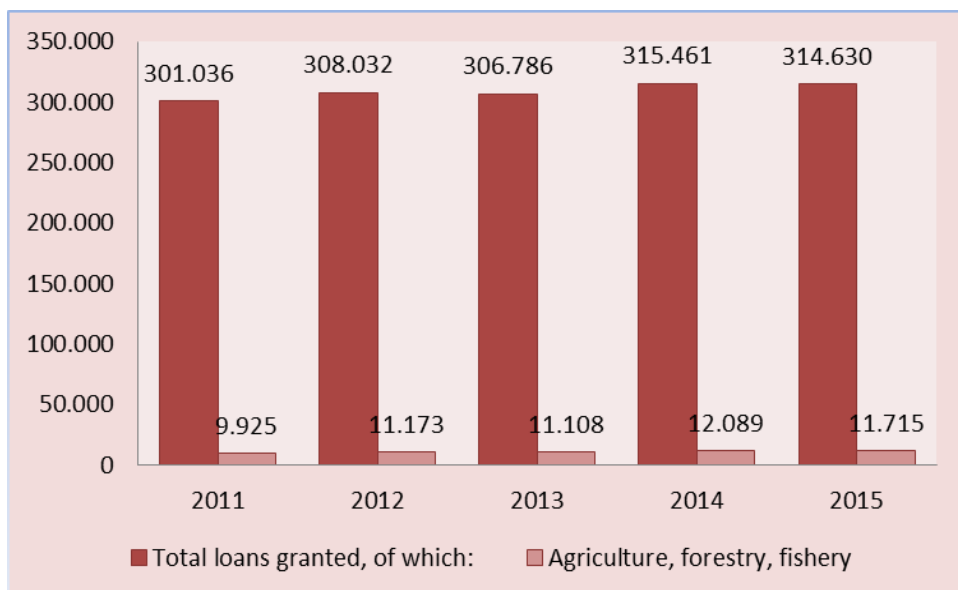
Starting in 1998-2000, as the former Banks Agricultural ability to finance agricultural activity, and especially to support loans for investment, industrial-processing capabilities of agricultural products decreased BCR Erste Bank took part in customers the bank continues to start at a much reduced scale, their lending. Supporting loans to the manufacturing industry in the agricultural sector continued after the takeover of BCR by Erste Bank, which is why the investments made by BCR in the agricultural sector were significantly higher than those achieved through Raiffeisen Bank, banking institution that took over Agricultural Bank privatization. Moreover, since Romania's accession to the EU ie in 2007, companies operating in the manufacturing sector started to expand and diversify their activities by purchasing farms and land for producing raw materials for processing, which led, on the one hand, increase economic efficiency by achieving a higher profit margin, on the other hand, to increased investments in the BCR-Erste Bank. Another aspect of support through loans by BCR Romanian agriculture was and that the bank has been a loyal partner of leasing companies and financial leasing in particular which ensured dissolution Romanian market of machinery and equipment for agriculture. This explains a level of investments between the two different credit institutions, the volume of investments made in agriculture by BCR Erste Bank is considerably higher than that provided by Raiffeisen. For example we show that in 2007 the volume of loans granted by BCR Erste Bank reaches 39,399,506 thousand, while Raiffeisen reach just over 8 thousand lei (cf. figure no. 6). The gap between the two banks (which do not necessarily translated into the potential of existing resources for each of them) continues for lifetime analyzed at the level of 2013 total loans to agriculture BCR was 47 thousand to 14.3 thousand as is the volume of investments in agriculture made through Raiffeisen Bank.



Source: own projection based on the data from BCR Annual Report 2013, p. 14

**Figure no. 6 Loans to agriculture BCR 2007-2013**

Until 2020, agricultural credit will follow the general trend regarding the funding scheme for agriculture that will include an important component of resources allocated by the European Union programs, while the levy of net profit enterprises for the development and a much diminished agricultural credit source coming from commercial banks. Since 2011 is an increase in the lending and credit commitments institutions around 5% every year.

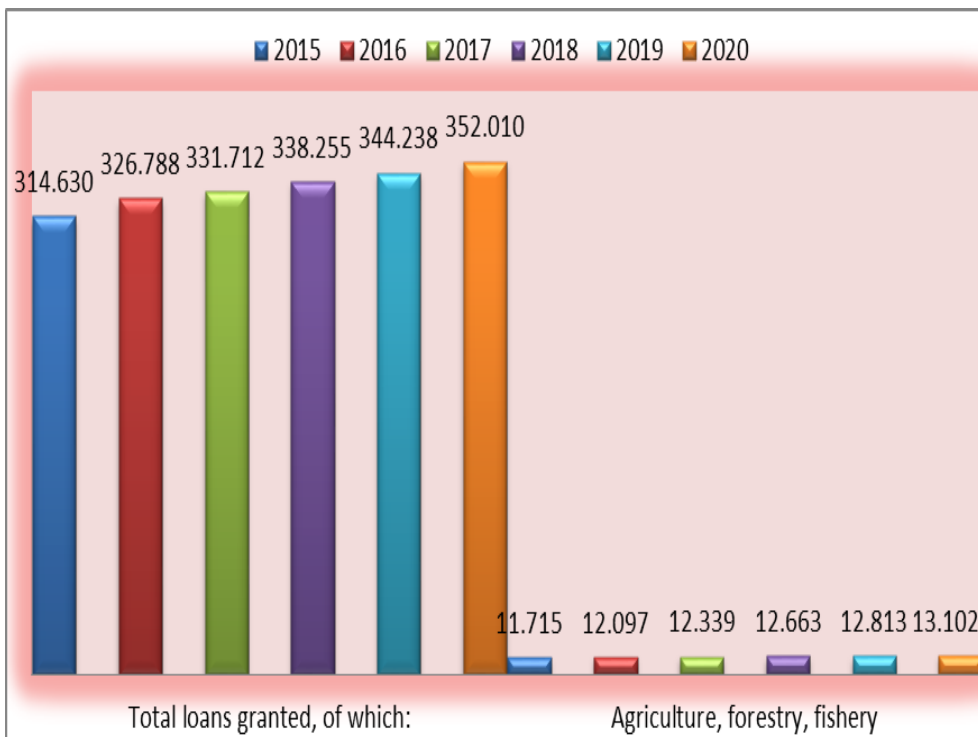


Source: own projection based on data from the Monthly Bulletin of the National Bank of Romania, February 2015, p. 62, Section Statistics

**Figure no. 7 Loans and commitments by credit institutions in 2011-2015**

According to this estimate and assuming maintaining a pace of such growth, especially the growth rate representing agricultural credit investments, we estimate that in the late 2020-2021 agricultural credit (increased volume of investments made by commercial banks) will be 12% compared to 2015.

As shown in figure no. 8 notice that value in loans to agriculture by 2020 will be 13.102 million lei.

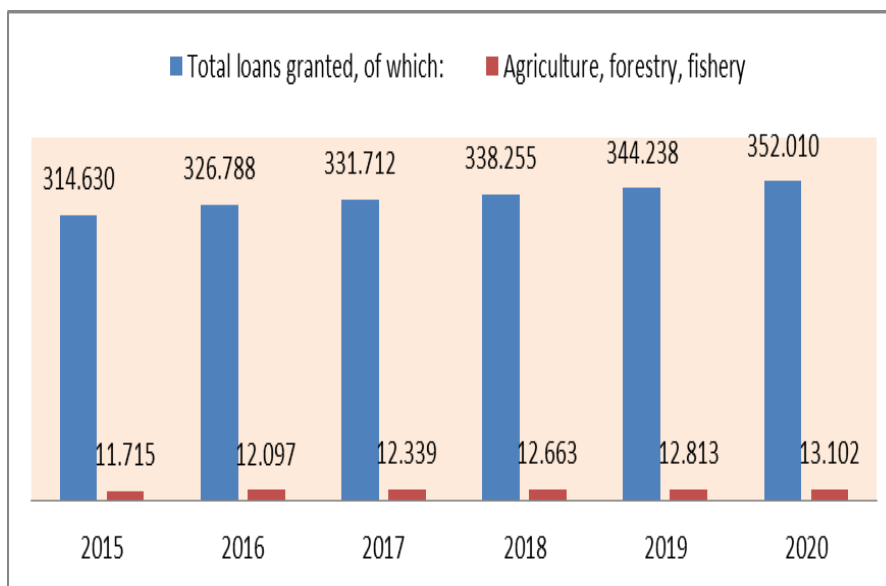


Source: own estimates based on data from the Monthly Bulletin of the National Bank of Romania, February 2015, p. 62, Section Statistics

**Figure no. 8 Forecast of loans and commitments by credit institutions during 2015-2020**

Increase of approximately 12% of loans to agriculture through commercial banks corresponds to a realistic assessment on increasing the absorption capacity of European funds for agriculture in the same period, 50 to 60% compared to 2015. Based on the average annual growth rates in the lending period 2011-2015 estimate an increase in loans granted by specialized institutions from 303.179 million lei in 2016 to 332.541 million lei in the year 2021, loans granted by credit institutions within the timeframe of the agricultural sector in 2020 is expected to reach 12.923 million lei cf. figure no. 9.





Source: own estimates based on data from the Monthly Bulletin of the National Bank of Romania, February 2015, p. 62, Section Statistics

**Figure no. 9 Predictions on loans granted by credit institutions**

## 5. CONCLUSIONS

The appreciation about the level of investment in agriculture since 2020 but does not take account of the possibility of increasing the complexity of the activities of companies,

situation that might be explain by increasing the processing of agricultural primary production, in turn achieved through productive investments in the manufacturing sector.

Thus, a company that has culture agricultural land or livestock may process both its production and raw materials from other farmers. In this situation, based on finding common sense that no European program will not propose allocating funds to stocks from production, it is assumed that commercial banks will allocate resources for lending processing sector as loans to support current activity. Volume and structure of loans can't be sized properly at the moment, but it is expected that the volume of investments made by commercial banks as loans for agriculture to be higher, the pace of growth in early 2020 compared to 2015, figure of 12% predicted solely based on the average annual growth rates.

Structure of credit that may be granted in 2020 by type of beneficiary is in turn part difficult to estimate, given mainly to bank's internal politics while achieving their own eligibility criteria.

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