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Agriculture budget as a form of financing of Serbian agriculture

Gvozden Jovanović

Faculty of Economic - Niš, Serbia

Dejan Lakićević

Business Academy - Novi Sad, Serbia

Abstract: Authors are investigating the support of the state with regard to financing the agricultural sector over the past period. In January 1994, the credit placement from the central bank primary issuing, which had long been reliable and standing source of funding agriculture, was terminated by of the monetary system reconstruction the programme. That led to the agrarian budget as a pooled and consolidated form of the state support to agriculture, which is implemented by subsidizing the agricultural production. Agrarian budget funds from 2004 to 2006 were exploited for the purpose of financing agricultural production, which represents a very specific form of the state support and which used to be realized through commercial banks.

Key words: agriculture, state, credit, agricultural budget, Republic of Serbia.

Introduction

Agricultural budget is an integral part of the central, federal or regional budget which determines the scope of necessary funds (premiums, recourse, subsidies, grants, loans), Premium - Additional Incentive payments (to producers or exporters or importers).

Regress - a form of economic transfers that states stimulate sales and consumption of certain products. It creates stable economic conditions for the

development of certain activities and areas. With regress government usually wants to achieve the following objectives: increase agricultural production and on that basis, the growth and stabilization of the aggregate supply of agricultural products, faster introduction of the results of the modern development of science, technology and techniques in agricultural practices, increasing and stabilizing agricultural income. Regress can be given to farmers for purchase of certain reproduction materials, such as mineral fertilizers, of pricing policies of agricultural products. As well as instruments of state interventionism (agricultural policy) and protection of pricing policies of agricultural products. Here, we show the application of scientific methods, design of experiments models through experiments and types and structure of the experiments, the study of literature, setting up working hypotheses and scientific objectives. The choice of topics for research ideas and actuality of the task to set up the scientific definition of scientific hypotheses and objectives.

Research results

Reconstruction programs of credit-monetary system, whose implementation started on 24th January 1994 abolished the agricultural finance from the primary emission of the central bank on the grounds that these investments affect the growth of domicile inflation. In the given situation it was necessary to find a new way of financing that would recognize specific of agriculture. At the same time, due to tight supply of money, we have the growth of interest rates on loans that were approved by commercial bank, which significantly increased costs of agricultural production and led companies in a difficult financial situation (Pejanović *et all.*, 2008).

For these reasons, it was realized that it is necessary to establish safe and permanent source of financing for agriculture, and therefore agricultural budget was established, as part of the budget of the Republic of Serbia. Decision on the establishment of the agricultural budget was adopted in late 1995 and in 1996 he officially became part of the state budget. Agricultural budget was designed as an integrated source of state support for agriculture in maintaining current production, and development dimensions of this economic activity. According to some authors, this is the way of regressing, not financing agriculture, while in support of the state agricultural budget exists in all developed countries.

At first the agricultural budget was relatively modest and it was one billion dinars. The initial intention was that the agricultural budget provides funds for stimulating priority needs of agriculture, extension services and funds for the revitalization of the village. It was clear that the funds allocated for this purpose is insufficient and that it is necessary to increase it if it is meant to seriously develop agricultural production, because its progress is not possible

without strong economic assistance of the State. Only in this way the modernization of agricultural production can be achieved, the optimal supply of markets with food and it can ensure quality life to farmers. For example, in the European Union, that counted 25 countries at the end of 2006th, and had 480 million inhabitants, the average subsidy per capita, in the above year, was 127 euros. In our country, in the same period, subsidies to agricultural producers goes to an average amount of 17 to 20 euros, 70 euros in Hungary, and even 130 euros per capita in Slovenia. In the European Union in 2006 subsidaries were amounted to 360 euros per hectare, and in our country 32 euros per hectare. We can conclude that our agriculture has almost ten timeless support in relation to developed countries (Pejanović and Milić 2008).

Long term objectives of the agricultural budget should be related to:

- 1) increase production, productivity, export and monitoring of technological innovations in agricultural production;
- 2) improving the quality of production and increase competitiveness of agriculture;
- 3) the growth of life standard of the population and ensuring adequate income to agriculture;
- 4) environmental protection and production of healthy food;
- 5) development of rural areas and keeping people on them.

According to the share of agriculture, in gross domestic product and expenditure budget of the Republic of Serbia (Tab. 1), in the period from 1996 to 2006, it can be concluded that the importance of agriculture for the economy as a whole did not had the adequate support of the state for this very important activity. For example, in the period from 1996 to 2002 the share of agriculture in gross domestic product was relatively stable and amounted to about 20%, while the share of agricultural budget in state cash register reduced every year and from the initial 8.3%, in 2002 came to only 4.3%. The importance of agriculture in the economy and its participation in the state budget illustratively is shown in the fact that during 2001 production recorded a growth of 20%, which led to GDP growth of 5% (Pejanovic, Magazin "Ekonomist", Beograd, broj 86 od 14.01.2002.godine, str.20). That same year, the participation of agriculture in the total state budget was only 3.1%.

Based on the data shown in Table No. 2 it can be concluded, that in the entire period, the largest single appropriation of funds from the agricultural budget was for premium for milk and they went up to about 1/3 of total budgetary resources. Note that this measure had mainly social dimension because premiums were paid to producers, regardless of the amount of milk delivered, so that a large number of farms in the Republic was eligible for this support. After that we have premiums for plant production, which primarily were intended to change sowing structure in favor of industrial plants. According to data presented in Table No. 2 it can be concluded that the funds in the period observed

were continuously separated for breeding cattle, while (since 2001.) incentives for revitalization of villages have been abolished. In the next year, the budget will start to pay incentives for raising plantations of fruit and especially vines and plums, because their production in the previous period was significantly reduced. Also, subsidies for the purchase of wheat were introduced and since 2003 subsidies for export of agricultural and food products, and subsidies for expenditure and improvement of the quality of land area, which is in accordance with the requirements of modern agricultural production in the European Union.

Tab. 1. Comparative review of the participation of agriculture in GDP and expenditure budget of the Republic of Serbia (%) (Bogdanov Natalija et al, 2004)

Year	Percent of in GDP	Percent of agricultural budget in total budget of the Republic of Serbia
1996.	19,50	8,30
1997.	19,30	6,00
1998.	18,30	5,80
1999.	21,40	5,00
2000.	23,20	5,60
2001.	24,00	3,10
2002.	20,00	4,30
2003.	18,46	4,04
2004.	15,00	6,12
2005.	13,50	4,38
2006.	12,90	5,28

In this period agrarian policy of Serbia had a duty to help the financially exhausted agriculture. In fact, agriculture was responsible to provide food safety during the period of economic isolation. Also, this economic activity is additional financial exhaustion with perennial economic recession, so it is understandable that the measures of agricultural policy, institutionally, qualitatively and quantitatively must be very different from those in the European Union (Pejanović 2009).

In domestic agricultural policy, during 2004, there is a turning point, which is reflected in the effort to adapt agriculture to a market economy as in developed countries. For this purpose, new items were introduced to the agricultural budget, which is shown in Table No. 3 First of all, those are incentives for developing the market of agricultural and food products, incentives for rural development, and incentives for the development of agricultural lending. Priority development projects are funded from grants, support is given to long-term lease of agricultural land (in order to increase the property). Premiums for milk remain as an important social dimension of our agriculture. The novelty is that all premiums are paid directly to farmers and not to food processors as in the previous period. For that purpose, there will be a mandatory registration of

farms, because only these farms are entitled to get the state support.

Tab. 2. Structure of agricultural budget of the Republic of Serbia from 1996-2003 (in %) (Bogdanov 2004)

No Purpose	1996	1997	1998	1999	2000	2001	2002	2003
1. Premium for milk	28.0	28.0	34.7	34.6	47.4	45.4	33.7	27.5
2. Premium for plant production	17.2	17.2	5.8	7.7	-	16.7	15.0	23.8
3. Recourse for breeding cattle	6.3	6.3	8.6	4.8	4.0	2.7	2.8	2.5
4. Revitalization of village	10.0	10.0	7.4	6.7	5.1	-	-	-
5. Agricultural services	-	2.0	2.4	2.2	2.2	1.2	1.4	1.1
6. Measures for improvement of livestock	-	4.0	6.8	6.2	7.3	2.9	1.9	1.4
7. Animal healthcare	-	8.0	8.9	8.1	8.4	15.7	11.9	9.9
8. Improvement of agricultural land	-	3.7	3.6	2.5	1.1	0.8	0.8	0.9
9. Stimulating of plantation growth	-	-	-	-	-	-	1.8	1.3
10. Subvencion for weath purchase	-	-	-	-	-	-	5.6	2.0
11. Expansion and maintenance of land	-	-	-	-	-	-	-	5.9
12. Stimulating of export of agricultural	-	-	-	-	-	-	-	4.3
13. Forestry and hunting	-	3.0	3.4	8.6	8.4	2.5	1.8	-
14. Multipurpose usage of water	-	14.0	14.7	14.7	12.4	7.9	18.6	18.0
15. Other obligations stipulated by the law	38.5	3.8	3.6	3.8	3.6	4.1	4.8	1.3

Based on the data presented in Table number 3 it can be concluded that the dominant share of the agricultural budget in 2004 goes to measures that will support production and market, even 55%. Measures encouraging rural development have constituted 20.1% of the agricultural budget in the specified year and the cost of professional and public services 24.9%. In the following, 2005 new measures were introduced, encouraging credit policy which participated in the agricultural budget with 13.6%, while the financing of measures to enhance the production and the market, spent half of the agricultural budget for the year. Costs of professional and public services were in 2005 30% of budget funds assigned to agriculture and rural development incentives 6.4%. In 2005 premiums for basic farming culture were abolished, and only the production of hops, tobacco, rapeseed and pumpkin is still regressed. Regressing procurement of planting materials, fertilizers and mineral oil, in addition to credit funds and incentives for rural development becomes the main form of state support to agricultural producers.

Tab. 3. Structure of agricultural budget for 2004 - 2006 (in %) (Sindić 2007)

No	Purpose	2004	2005	2006
01.	Support to plant production	12.9	16.2	11.1
02.	Support to livestock breeding	19.0	18.5	13.1
03.	Market support measures for agricultural products	3.0	2.6	2.2
04.	Measures promoting the production	5.5	6.4	8.7
05.	Measures and actions in agriculture	0.2	4.9	2.3
06.	MEASURES TO SUPPORT RURAL	20.1	6.4	5.1**
07.	CREDIT POLICY MEASURES	-	13.6	20.7
08.	Other measures	14.4*	1.4	0.7
09.	TOTAL SUPPORT TO PRODUCTION	75.1	70.0	63.9
10.	Advisory services	1.0	1.2	0.8
11.	Veterinary management	8.8	5.2	7.5
12.	Plant protection management	0.6	0.6	0.7
13.	Republic Directorate for Water	12.3	16.9	17.4
14.	Forest management	1.8	2.5	1.9
15.	Ministry expenditure	2.4	3.6	3.2
16.	Other costs	-	-	4.6**
17.	PROFESSIONAL AND PUBLIC SERVICE	24.9	30.0	36.1
	AGRICULTURAL BUDGET	100.0	100.0	100.0

* With purchase ** Means of National Investment plan NIP

In 2006 credit policy measures increased their participation in the agricultural budget and went up to 20.7%, rural development measures are constituted at 5.1% (financed from the funds of the National Investment plan), and measures to support production and market of agro-food products have reduced their participation in the agricultural budget to 38.1%, while the share of the costs of professional and public services increased to 36.1%. The growth of these costs was conditioned by the need to build local agricultural institutions in order to support the implementation of the model applied by agriculture in the European Union (Pejanović 2009).

It can be concluded that the observed ten year period of means of the agricultural budget was insufficient to meet the current needs of domestic agriculture, let alone the development and the need for structural adjustment of production in accordance with the requirements of the European Union. Also, funds taken from the state budget were not equivalent to the importance of agriculture for the national economy. Specifically, in the period from 1994 to 2006, the share of agriculture in the creation of gross domestic product goes to an average of 19%, and if the consideration of textiles this share amounted to even more than 40%. At the same time, the share of agricultural products in total exports went to 25%, while the separated funds from the state budget for agriculture went to an average of only 5%. For example, in surrounding countries, on average, the state annually sorts out for agriculture from 10% to 14%.

However, not all funds in the agricultural budget in the period of 2004-2006 were intended for agricultural production incentives, but were placed in the form of the loan, the return funds, which are significantly diminished funds for subsidies. There is an opinion that the credit function is not in accordance with pre-set function of the agricultural budget, because from it, it can only grant Incentive Grant funds and not revolving funds.

Agricultural budget in 2013 will amount to 45 billion dinars, which represents 4.5% of the total national budget, while a draft law on incentives in agriculture and rural development - is moving toward a strategic objective that is agricultural budget in 2014 to reach a level of at least 5 % of the national budget (data Ministry of Agriculture).

Conclusion

The problem of domestic agriculture in the reported period was based on the pending issue of financing agriculture, inadequate government support for this important economic activity, inadequate comparison between the contribution of agricultural domicile production of gross domestic products and financial investment in the local agriculture. Also, the financial position of agriculture in the period was further on endangered with the disparity in prices of agricultural and industrial products, inconsistent agricultural policies, and inadequate credit support, both in quantitative and in qualitative terms. With abolition of agricultural credit from the primary emission of the Central bank, this category has remained without beneficiary loans, as well as a secure and permanent funding source, which takes the specificities of its production into account.

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AGRARNI BUDŽET KAO OBLIK FINANSIRANJA SRPSKE POLJOPRIVREDE

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Gvozden Jovanović
Ekonomski fakultet, Niš, Srbija

Dejan Lakićević
Privredna akademija, Novi Sad, Srbija

Rezime

Autori razmatraju podršku države finansiranju poljoprivrednog sektora u proteklom periodu. U januaru 1994. godine, kreditni plasmani iz primarne emisije centralne banke, koji su dugo bili pouzdan i trajan izvor finansiranja poljoprivrede, ukinuti su putem Programa rekonstrukcije monetarnog sistema. To je dovelo do agrarnog budžeta, kao zajedničkog i konsolidovanog oblik državne podrške poljoprivredi koja se sprovodi putem subvencionisanja poljoprivredne proizvodnje. Sredstva agramog budžeta su u periodu od 2004. do 2006. godine korišćena za potrebe finansiranja poljoprivredne proizvodnje, što predstavlja specifičan oblik državne podrške koja je realizovana preko komercijalnih banaka.