

## **AGRICULTURAL CREDIT POLICY IN HUNGARY**

*The productivity of the Hungarian Agriculture was reduced with 13 per cent in 2007. The sector has been passing through a crisis since the end of 1980s. All this period is a structural reorganization which is the passing on the free market economy from the planned economy. In our essay we would like to prove that the Hungarian agriculture was in a acute crisis in the EU-accession as well. To proving we could use mathematical and financial methods. By nowadays the accession has not been able to influence the situation of the Hungarian agriculture on a substancial way. In 2004, the EU integrated the Hungarian agriculture that has been fighting with the most serious crisis among the EU member-states. This deep and structural problems, including financial and production processes, are unsolved.*

The solving and improving the problem of financing agriculture is one of the most important questions. The agriculture has many specialities compare to other sectors of national economy. In case of agriculture, the payback period is longer compare to industrial sector. That is why the capital prefers to flow to industry and commerce. The rate of credit for agricultural sector is varying from 19 % to 2 % compare to the total amount of outstanding. This rate is very low in every case. The main aims of financing the Hungarian agriculture are the following: Most important the competitiveness and profitability; reservation of agriculture and forestry with the aim of environment protection; advancing and bring to a level of other sectors the income – and social position of farmers.

### ***Introduction***

The *income shortage*, which is typical of agriculture from long years, destroying the agriculture's possibility for competitiveness and market acquisition in long-term. The consolidated income shortage of the primary sector is obviously opposed to the long-range interest of the rural population and the better utilization of the agri-resources.

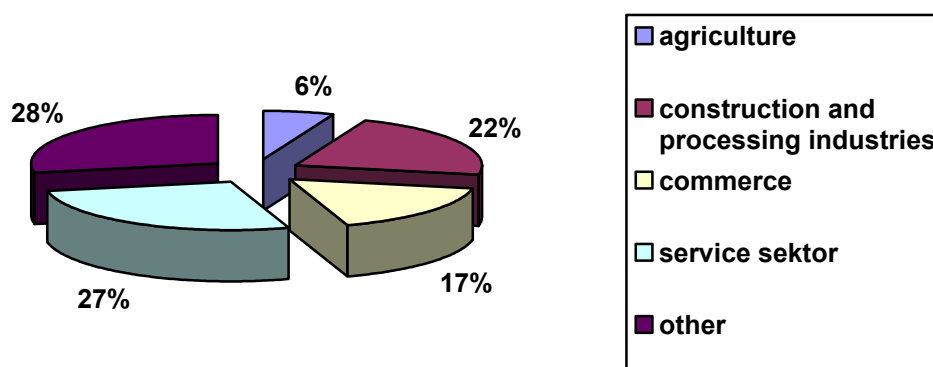
In view of financing, banks have very difficult position, because the inquiring *agricultural enterprises have the following specialities*:

- using biological basis (animals, plants) during farmer activity;
- the agriculture is defenseless against weather conditions (mostly in the area of cultivation of plants), infections, epidemics (uncertainty of return);
- the most important mean of production is the ground;

- very typical that each process of production lasts for long time, that's why the payback period of operating- and fixed assets and investment is longer than in any other branch of industry;
- difference between producing and working period;
- the producing is seasonal, which has influence for exploitation fixed assets and labour force (working peaks). Farmers need to take care for these specifics by planning production;
- the optimal date for each field of work is determinates by climate and weather conditions;
- the timing structure of cash flow (spending and income) is different during a producing cycle. While spending appearing continuously during each working stage, the income can be realized mostly in the end of the cycle by selling products. This suppose the need of using external resources (loan, aid, credit);
- product-circulation inside farm (connection between cultivation of plants and animal keeping);
- some agricultural product (e.g. seed grain, breeding material) goes back to the same producing process as a mean of production;
- the differences between means of production, raw materials and auxiliary materials sometimes totally indistinct (e.g. fertilizer);
- very important peculiarity the geographical location.

#### ***Material and methods***

The main methods of the research are statistical and theoretical analyses. The statistical data used for the examination come from the databank of the MNB. We have studied the distribution of the bank credit balance of 2005. According to the main sectors. The results were compared with the facts of the risk Graphic analysis was carried out with the help of Microsoft Excel.



***Figure 1. Distribution of the bank credit balance (2005.)***

Source: MNB 2006.

According to the evaluation of the credit leaders the (Figure 2.) shows the agricultural credit's change of the risk.

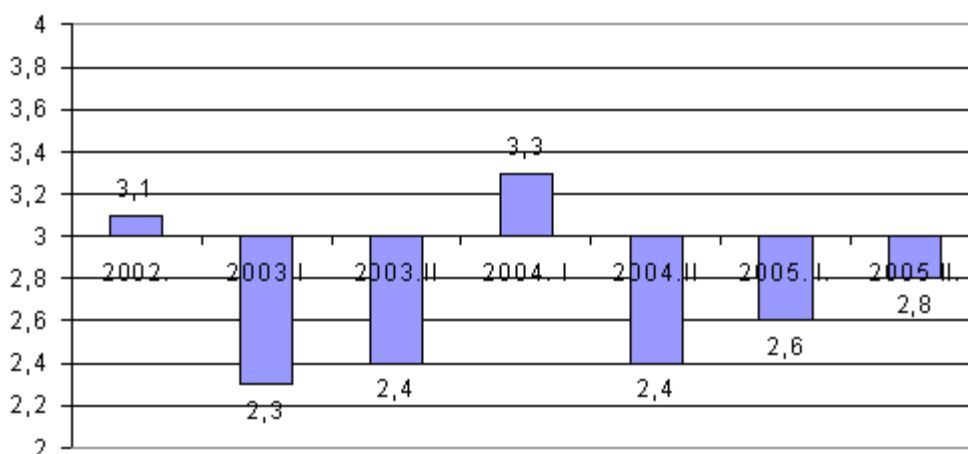
The figures mean the following:

1: significantly more risky;

3: the risk has not changed;

5: the risk of the credit has significantly decreased.

According to the banks judgment of the agriculture in the studied period turned into a negative direction which can justify the stop of the growing tendency in the agricultural credit balance (Figure 2.).



**Figure 2.** Agricultural credit's change of the risk

Source: Papp 2006.

The basic data of the following study derives from the annual report of the banks. (Chart 1.). The connection between the data has been determined by principal component analysis, the results were provided by so called „principal components” function of MINITAB program-package (Chart 2.).

**Chart 1.**

Loan breakdown by sector in 2003.					
	Raiffeisen (1)	K&H(2)	OTP(3)	HVB(4)	MKB(5)
<b>Service sector (C2)</b>	195 356	202 799	79 992	260 549	497 535
<b>Agriculture (C3)</b>	<b>127 146</b>	<b>79 937</b>	<b>28 384</b>	<b>10 961</b>	<b>18 549</b>
<b>Construction and processing industries (C4)</b>	14 416	144 410	101 926	19 604	22 762
<b>Food industry (C5)</b>	40 192	60 611	36 592	21 249	39 036
<b>Commerce (C6)</b>	104 056	127 299	86 470	54 634	81 586
<b>Energy industry(C7)</b>	18 811	51 121	87 089	29 407	63 479
<b>Other(C8)</b>	35 551	69 402	224 647	47 638	38 667
<b>Private individuals (C8)</b>	127 146	243 610	.....	22 851	72 281
<b>Total</b>	662 674	979 189	645 100	486 893	833 895

Source: Yearly reports of banks



**Figure 3.** Loan breakdown by sector in 2003.

Source: chart 1

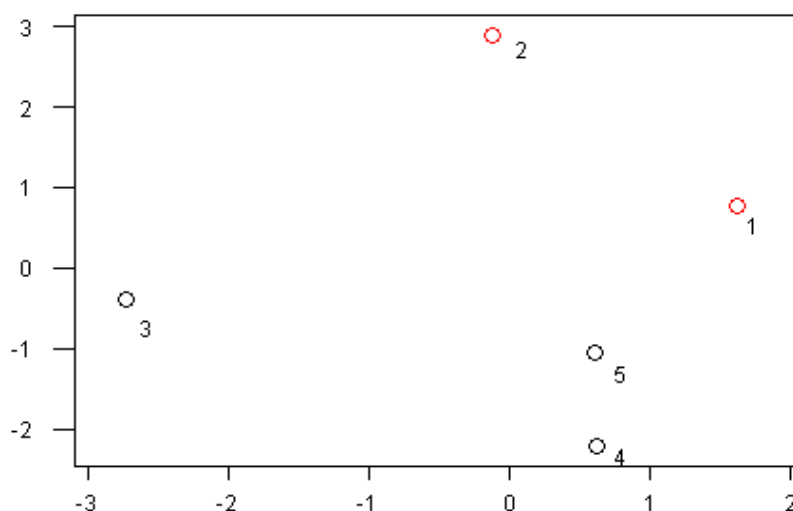
The goal of the study is the exploration of the interaction between the original features (credit outsourcing) In the grouping completed according to the main factors, the two factors mean latent variants, which do not have a definite meaning. The two factors (3. chart) were diagrammatized in a C2-C1 rectangular co-ordinate system with the help of the „graph-plot” function of the MINTATAB program package. Based on point’s fixing up the similarities can be recognized more easily and those ones, which can be considered coherent, are easy to be marked off. C2 was diagrammatized on the horizontal axis of the chart, while C1 on the vertical one (Figure 4.).

**Chart 2.** C matrix

Variable	PC1	PC2	PC3	PC4	PC5	PC6
C2	-0.169	0.322	0.703	-0.270	0.486	0.066
C3	0.367	0.257	-0.436	-0.504	0.476	0.011
C4	0.359	-0.385	0.132	0.529	0.521	-0.216
C5	0.488	-0.033	0.276	-0.120	-0.146	-0.517
C6	0.508	0.003	0.041	-0.272	-0.338	0.006
C7	-0.011	-0.533	0.391	-0.395	-0.200	0.176
C8	-0.007	-0.589	-0.197	-0.235	0.289	0.331
C9	0.460	0.224	0.171	0.306	-0.080	0.735
Variable	PC7	PC8				
C2	-0.024	-0.245				
C3	0.154	0.323				
C4	0.328	-0.014				
C5	-0.592	0.173				
C6	0.385	-0.636				
C7	0.320	0.484				
C8	-0.483	-0.364				
C9	-0.183	0.187				

**Chart 3. U matrix**

	<i>C1</i>	<i>C2</i>
1	0.77549	1.61760
2	2.88803	-0.11827
3	-0.39987	-2.72007
4	-2.21337	0.61766
5	-1.05028	0.60308



**Figure 4. C matrix**

**Results**

Banks help the most favorable investment possibility of capital in exchange for interest. In case of agriculture because of cyclical productivity and long process the payback period is longer compare to industrial sector. That’s why the capital prefers to flow to industry and commerce. In 2005 the agricultural branch shared 6 % in the credits granted for the non – financial enterprises (Figure 1.). According to the banks judgment of the agriculture in the studied period turned into a negative direction which can justify the stop of the growing tendency in the agricultural credit balance (Figure 2.).

Banks help the most favorable investment possibility of capital in exchange for interest. In case of agriculture because of cyclical productivity and long process the payback period is longer compare to industrial sector. That’s why the capital prefers to flow to industry and commerce (Figure 3.). According to the examined banks’ data, Raiffeisen Bank had the biggest portfolio in agriculture sector in 2003. Earlier the K&H Bank had this role – in the time of ABN Amro Bank – but after the accession it lost its leading role. The rate of credit for agricultural sector is varying from 19 % to 2 % compare to the total amount of outstanding. This rate is very low in every case.

### **Conclusion**

The *income shortage*, which is typical of agriculture from long years, destroying the agriculture's possibility for competitiveness and market acquisition in long-term. The consolidated income shortage of the primary sector is obviously opposed to the long-range interest of the rural population and the better utilization of the agri-resources.

Every country, which made a special point of determination agri-policy, pointed out the *competitiveness*, as the main watchword of target- and resource system.

The solution of the financing problems can be seen in the improvement of the competitiveness, which has an encouraging effect on the banks' more intensive role, played in the agriculture. Through the more assured return of the loans.

### **LITERATURE:**

1. *Lentner Csaba* [2003]: The state of the Hungarian financial sector in the integration with the EU, EU Working Papers, number 1, Sopron.

2. *Csaba Lentner*: The Challenges of the Hungarian Agriculture at the beginning of the 21st Century: the First year in the European Union Megjelent: Naukovkij Visznik, Economicsni Nauki, Vipuszk No5. 2005, Zakarpatszkovo Berzsavnovo Universzitet, Uzsgorod, Ukraine, pp. 125-140.

3. *Lentner Csaba* [2005]: Rendszerváltás és pénzügypolitika, Akadémiai Kiadó, Budapest.

4. MNB[2006]: Nem pénzügyi vállalkozások hitel állományai nemzetgazdasági ágazatok szerint statisztika Magyar Nemzeti Bank.

5. *Papp Mónika* [2006]: Felmérés a hitelezési vezetők körében, a bankok hitelezési gyakorlatának vizsgálatára tanulmány Magyar Nemzeti Bank.

6. Yearly reports of banks [www.bank.lap.hu](http://www.bank.lap.hu)