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**The role of interest rate subsidies and the state guarantee
in the agricultural regulation system**

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1. PRELIMINARIES

Motto: „Care-taking Government always tried to strengthen the economy of the fields, and not even the most elegant officers were ashamed to deal with it...”
(*Széchenyi, 1830: p.76.*)

Agriculture is supported all around the world. The state effort to influence the loan supply for agriculture has been generally strong, therefore – within the scope of state aids – state support for loans always has an important role. However, agricultural and food industrial products are not really solvent products and agricultural investments and equipments are not creditable and do not really represent reasonable securities for banks. The credit standing of the agricultural sector is low and the related rates of return are unfavourable, however it represents a great level of risk as a result of its specialities. The bank-related financing of the agricultural sector happens, almost in all cases, by providing loans with preferential interest rates and state support.

The state's role as an accelerator in granting credit is typically revealed in the shape of interest rate subsidies and state credit-guarantee.

The institutions of **interest support** are widely prevailed in the world, e.g.:

- In Australia (within the framework of the so-called Rural Development Programme), the interest support linked to the interests charged by commercial banks make it possible for farmers to obtain credits to solve extraordinary situations, like drought or structural changes.
- The state support of commercial credits to the agricultural sector has a significant role in Czech agricultural policy.
- According to the system in Turkey, relieved interest charges are used in relation to credits for agriculture and not the standard interest rate of the Agricultural Bank. The weighted average interest rate applied by the Agricultural Bank is 50% in relation to general credit for crop producers and 43% in relation to animal breeding companies. The commercial credit interest rate applicable in relation to several sectors is at 130%.
- In the United States of America the fifth chapter of the latest agricultural law – the Farm Security and Rural Investment Act of 2002 – deals with agricultural credit-granting.

Credit-guarantee systems are important elements of the financial institutional system in many countries of the world. (AWS, Austrian Bürgschaftsgesellschaften – Austria, Finnvera plc – Finland, SOCAMA, SOFARIS, SIAGI – France, FEDART, FEDERFIDI CONFESERCENTI, FINCREDIT CONFAPI – Italy). Their basic role is to decrease the credit risk of commercial banks. Union credit institutions and saving banks generally have significant role in

the European Union. Those institutions, though with a decreasing extent, still play important role related to credits of the agricultural sector and village development in most countries. Federal government of the United State warrant the operation of the agricultural credit system in order to help the agricultural sector gain loans.

Regarding their economic impact, continuously existing state supports are important in the OECD member states. The amount of those supports is only decreasing slowly and almost each counts has its own supported sectors (agriculture, some state owned companies, mining). Supporting and maintaining the income of households living on agriculture is an accepted principle in most of the countries being part of OECD.

However, the forms and options of support arrangements are defined by needs and the budgetary limits of the concerning country, as well as international agreements and contractual provisions. Apart from the latter, the Agricultural Agreement of the WTO plays a significant role, according to which internal (production-related), as well as external (export), supports shall be decreased.

Domestic agriculture is supported in Hungary, just as it is all around the world. The basis of agricultural production has become unstable because of losing market, recompense and damage caused by the elements (especially droughts). While national economy as a whole was growing, the GDP of the agricultural sector decreased gradually (agricultural sector represented 3% of the GDP in 2004).

The rate and number of employees in the agricultural sector also declines. Because of recompense and privatisation processes the farms in Hungary has broken into small pieces. The increasing gap between prices of agricultural and industrial products, and the instability of financing economy are still great problems. Agriculture has lost its role in national production since the political changes of the 90's.

Financial institutions have not volunteered to finance the sector fully because of its high risk factor, therefore, providing loans for the farmers happens with governmental help, by giving interest rate subsidies and state credit-guarantee. The Hungarian **state guarantee system and interest support means are varied** and offer wide range of options for the agricultural administration. The popularity of those schemes is also shown by the fact that the total value of implemented credit programmes until 31 December 2004 was over HUF 464 billion, in connection to which HUF 60 billion worth direct state guarantee was provided. The indirect state guarantee was about HUF 100 billion, while the annual amount of interest support exceeded HUF 20 billion.

2. GOALS

As the theme of my dissertation I chose two important elements of agricultural regulation system: interest rate subsidies and state credit-guarantee connected to it. When choosing the topic of my work, I mainly searched for the answer of **how the agricultural regulation system can find a solution for the problems with using these two elements of support.**

Credit and credit arrangements have always played a leading role in Hungarian agricultural regulation. Argument about certain elements of regulation or the benefit of these means may be possible, the fact however that agriculture wouldn't have been viable without them is indisputable, since mainly these constructions made consolidation of shock caused by market and climate. The agricultural period of production can consume years (livestock-breeding), this way the positive or negative effects of changing or introducing a certain subsidy element may only be experienced after longer period of time. This must be considered when making an efficiency research.

In my PhD dissertation I mainly wished to study **the effects of the accession to the European Union.** The main reason for this is that **Hungary became part of the Union during my research.** I believe that proposals must be worked out to reconstruct this sector – affected by interest rate subsidies and state credit-guarantee – of the Hungarian financial supporting-system. The fact that most of the programmes running with interest rate subsidies and state credit-guarantee will remain alive for years after entering the EU must not be neglected. Because of the regulations of the EU, it is likely that no new credits of this structure will be introduced, but most of the agricultural credits resorted with state support are long-term loans, and the related contracts were usually signed with the duration of 15-20 years. Therefore, if the competent DG of the European Commission does not raise any objections against the schemes, they can be implemented until 2017-2022. However, their volume will decrease, the financial (payment) commitments made by the state (interest support, guarantees) can be applicable by that time.

I looked upon tracking the changes of the living standards of those dealing with agriculture as my main task. At the beginning of my research in 2002 I assumed that

- probably **the agricultural sector is going to get rid of its** almost HUF 300 Billion worth **liability**, while being able to provide the technological development and investments from the capital already at their disposal as a (supported) credit,

- based on this, **agricultural enterprises will succeed in increasing their competitiveness** by producing higher quality products and their profitability also shows improving tendencies,
- changes in regulation thus better exploitation of the openings **will make the sector recover**,
- as a result of this, provincial families will have better living-standards, and **population of the rural areas becomes stabile**,
- further in time, **government will be replaced in the process of supporting by different insurance companies and guarantee-departments.**

Apart from the above explained issues, in my study I am trying to reveal what **the two financial elements of the subsidy system**, (interest rate subsidies, and state credit-guarantee) have brought for Hungarian agriculture. Whether they **helped preparing for the Union**, gave advantageous position for competition for the Hungarian farmers, or simply assured spontaneous survival after economic changes or environmental disasters.

My goal is to analyse the influence of **the changes to the Hungarian regulation system on agriculture**, through the role of interest rate subsidies and state credit guarantee.

I wanted to analyse our support-system **in comparison with the international ones**, highlighting the importance of interest rate subsidies and state credit-guarantee and the efficiency of the announced programmes in the agricultural regulation system.

The importance of interest rate subsidies and state credit-guarantee is likely to decrease or even come to an end due to the accession to the European Union, adopting elements of its regulations and later applying them entirely. At the same time cost and income circumstances become well-arranged, and agricultural capital investment produces such income, which assures the living and long-term income safety of the farmer.

3. MATERIAL AND METHOD

Motto: „Credit in an open-minded meaning. That is to say: to believe and to be able to believe.” (*Széchenyi, 1830: p.156.*)

I have treated a wide range of both Hungarian and international publications. An extreme amount of written material is available for the researcher, for whom analysing and systemizing this material may become a difficult mission. **In order to understand state's role in credit-guarantee, I processed some national and international bibliography, particularly the activity of the guarantor.** The reason for my attention towards this can be explained by my opinion of the probable transfer of focus between direct and indirect state credit-guarantee with being a Member State of the European Union. I discuss this in details – illustrated with diagrams – in the chapter of Conclusions and Proposals. The role of guarantee-institutions and indirect state credit-guarantee is going to gain ground with this change of focus.

Besides treating the scientific bibliography, following the daily press is also crucial.

To make an overall research it was unavoidable to **follow the development of the domestic legal background** (laws, governmental and departmental decrees, etc). I illustrate the legal background in the upcoming chapters as a part of my study and I also introduce it by examples. I evoke it in my publications attached in the appendix as well, when describing a topic in details. I gave utmost attention to the question of legal anomalies and the methods of their treatment, accounting that these problems not only make the work of the official machinery more difficult, but also throw obstacles in the way of the activity of financial departments that finance agricultural support. In the case of certain state credit-guarantee programmes it also has an effect on the farmers. (E.g.: 84/22-07-2003 MARD Decree; 1041/29-04-2004 governmental order).

Regarding the fact that Hungary joined the European Union on 1st May, 2004 besides paying attention to the internal legal measures, I had to **study the regulations and requirements of the Union.** As it is known about the European Union, it works with a very wide range of legal regulations. And of all this, the greatest part belongs to the agricultural industry that has its own common policy. Only to check this enormous legal material is enough task for a researcher. I was trying to discuss the basic legal material connected tightly to my topic.

It has been an important challenge for me to pay attention to the results of legal actions taken by Hungary and the Union and to study their effects on the costs.

I followed the **calculation method** based on the regulation [MARD Decree No. 25/2004. (III. 3.)] **for the defining the interest rate support**.

For statistical analysis I employed the available data that occur in my daily routine at my workplace. In connection to domestic matters I relied on the monthly legal measure-based reporting duty of the financial institutes related to agricultural financing (some 16 banks, several credit- and savings-banks). I also considered treating the details of credit-guarantee institutes (Credit Guarantor Ltd., and Rural Credit Guarantee Foundation), responsible cabinets (Ministry of Finance, Ministry of Agriculture and Rural Development), and other related institutions (The Hungarian Tax Authority: APEH and the Hungarian State Treasury) as an important objective.

In relation to the preferential credit options [Government order of 317/2001. (XII. 29.)] for family farms and small- and medium-size enterprises, I carried out **cluster-analyses** using MINITAB programme. For controlling, I also run the examinations of factor-analyses and main component analyses. During my examinations, I was trying to find out whether, concerning the types of credit options of the programme, there is connection among the different areas of the country. My main interest was whether any unusual degree, connection can be detected in relation to the counties on the Great Plain. I assumed, based on the available data, that there are groups within the aggregation of data, and I was looking for those groups. In the particular case of my study, the aims were to find connections among the selected counties of the state and the available credit options. The cluster-analyses, regarding the credit options, had not show any significant differences between the different areas of the country.

I analysed the information available in the international and domestic documents with the help of the **Agricultural Research Institute**.

Besides the methods described so far, participation in **scientific debates**, seminars, conferences, lectures, study-tours shouldn't be left out either, because they gave the opportunity to get familiar with a problem both theoretically and practically and also to build up professional contacts, to have personal discussion and last but not least the possibility to use the documentation of all this.

4. RESULTS

4. 1. Results, on the basis of the set objectives

While writing my thesis it became clearer and clearer that **the sector** – as a result of a not well-considered agricultural policy – **couldn't get rid of its debts**. The reasons for this can mainly be explained with the announced consolidation programmes (development-credit: 2001; debt-consolidation: 2002; advantageous credit for those producing in disadvantageous circumstances: 2003) being closely followed by such credit-programmes (family farmer-credit: at the amount of HUF 100 Billion; drought-credit: at the amount of HUF 50 Billion; Europe-plan agricultural credit: at the amount of HUF 200 Billion), which – based upon their extent – has led to the enlargement of the farmers' credit-stock. As a result of all those circumstances, the programmes involving interest rate subsidies and/or state credit-guarantee has nearly doubled (table 1).

In my thesis it is clearly visible that the constructions are announced with higher and higher frame-amount possibilities. Continuous need for loans has led to the result that the farmers can not get rid of their debts. What's more, compared to the credit-stock of HUF 291,7 Billion in 2001, in the year of 2004 it exceeded the HUF 464,3 Billion. Direct state credit-guarantee during the same period has increased from HUF 37,6 Billion to HUF 55,1 Billion. **The state drove the farmers into the direction of over-depended situation.** Along with this, **competitiveness of domestic farmers has decreased.** It is getting harder to compete on the expanded internal market. Simultaneously it is obvious that recovery of agriculture without these programmes is impossible. These are the constructions that stabilized environmental and market shock. Although, in the framework of the „simple” practise of the past years when dealing with the problems, working out and introducing the system for support only depended on the government, following the accession to the European Union, **we have to** not only **fulfil** the requirements of the Hungarian legal system, but also **the regulations of the European Union.**

According to the level of interest rate subsidies in the announced programmes it is also a result of the artificially generated growth of credit-stock that **higher obligations of the interest rate subsidies** belong to the higher credit-stock. In spite of the fact that I had calculated with changes in regulation, recovery of the sector because of better exploitation of the openings thus improvement in the living standards, and stability of population in the rural areas, I had to admit that **the amount needed to be paid for interest rate subsidies consumes the capital available in the budget from other possible programmes.** This way, farmers

were put in the worst possible economic situation in the greatest need of governmental help.

Table 1

Credit stock in the agricultural sector (Billion HUF)

Description	1998.		2001.		2004.	
	Volume of guarantee	Credit stock	Volume of guarantee	Credit stock	Volume of guarantee	Credit stock
Short term loans	9 395	92 231	11 197	143 527	1 900	22 317
Investment loans		33 150		30 370		36 413
"Current asset" loans		98 355		67 818		69 780
Loans received on the basis of the Gov.Order of 30/2000. (III. 10.)			26 406	50 010	6 141	9 043
Loans received on the basis of the Gov.Order of 317/2001. (XII. 29.)					19 000	72 725
Loans received on the basis of the Agricultural and Rural Dev. Dep. Order of 84/2003. (VII. 22.)					21 284	39 527
Loans received on the basis of the Agricultural and Rural Dev. Dep. Order of 6/2004. (I. 22.)						203 086
Other long term loans					6 778	11 430
Sum	9 395	223 736	37 603	291 725	55 103	464 321

Source: Ministry of Finance, monthly banking reports

At the beginning of my research I assumed that analysing **the changes of composition and proportion of those taking part in the supporting constructions** could be interesting as well. By decreasing the role of direct state

credit-guarantee, going by the regulations of the European Union while exploit the possibilities – agricultural „de minimis” support; discharge support; and other potentials not yet discovered – **interest rate subsidies and indirect state-credit guarantee may become determinative** with the consideration of financial frames mentioned above. Concerning the above-mentioned issue, I introduce some potential outcomes in the chapter on “Conclusions, Proposals”.

It can be stated, based on the cost-benefit analyses regarding the issue on interest support and state guarantee, that **mainly budgetary aspects were considered during the preparation and implementation of the programmes** and ex-post impact analysis were plaid down regarding the successful implementation of programmes and meeting the original goals.

Apart from the above, it can be also stated that **the programmes varying in line with some political interests had not support the structural changes in the agricultural sector**. Political efforts were the reasons for changing options, like supporting large companies in one period, then supporting family farms in another.

Although, those programmes led to the situation when **the loan amount credited to producers increased to an extent, which** – taking into account the obligation of interest pay-back – **can sometimes threaten the operation of holdings**.

With our existing political views, public mood and **without significant changes in the operating methods, reforms cannot be established or only with serious delay and deformation**. The reason for this partly is that realisation of the reforms needs longer time than one elected period for political parties therefore there should be an agreement in certain essential conditions in order to get some changes started hoping for success, and avoid the fear from changing circumstances every four years.

If nothing else, it seems to be certain that the problems accumulated during the past years are going to have their fingerprints on our regulation chances. Accidental dealing with the problems can be predictable. In my opinion these are going to be the milestones along which our national agricultural regulations will be – even if not without difficulties – defined. It is an extremely difficult challenge for those working out the programmes to present a construction which improves conditions of the farmers, is suitable for the legal system, fits the frame possibilities of the budget while being adaptable for the different lobby groups.

4.2. The anomalies of the legal background

Amongst **domestic conditions** state credit-guarantee is regulated by several general and specific legal measures, from which I only mention the most important

ones. General rules of state credit-guarantee, besides the decrees of the MARD naming the particular programmes, are enclosed in the Act of State Budget of 1992, XXXVIII. (ASB); which has been modified several times, the Act of Civil Rights of 1959 IV. (ACR); also modified several times, the annual Budget Acts (BA); and the governmental decrees about state credit-guarantee and discharging guarantee (D); and the order of the Ministry of Finance of 28-12-2002/48 about the regulations of counter-guarantee (OMF). In this particular study I only have a chance to reach certain topics in the field of legal anomalies and problems occurred during execution.

One of the most important role is that of the modification of **the D**, because as a basic regulation this should control the activity related to its field. In my opinion though this decree **is not suitable for its role in the way of its current existence**. The process is not described in a logical, traceable way, and certain prescriptions are not even well-defined. Furthermore life has already exceeded the regulated categories and processes. From my point of view greater attention should be given to shaping the regulations of the latest years, such as the drought-credit, Hajdú-Bét / Parmalat / Novofarm credits regarding the fact that they include both the elements of individual state credit-guarantee and the elements of legal measure guarantee (causing a lot of trouble for the banks, official machinery and also the farmers applying for credit). When introducing the decree, measures about agricultural credit-guarantee should be taken in a separate chapter, considering that no legal measures deal with them at present time. This makes the operation of banks and official machinery difficult. These questions should certainly be part of the modifications of ASB and D, because the basis of misused legal actions and the obstacles in the way of stricter supervision and process were provided by the incomplete detailing of ASB and D.

In the case of some legal measures it appeared that in a particular credit-case not only the state gave guarantee, but also the guarantors. E.g.: in case of the development credits the legal measure only states that the rate of credit-guarantee paid by the state can only reach the maximum of 80 percent. Utilizing the legal gap the guarantors guaranteed the remaining part in a way that the total amount of guarantee given by the state and the institution together didn't exceed the 80 percent. Thus eliminating the chance for double demand in the case of credit-discharging, the bank must report if there is an institutional guarantee regarding a particular credit or if it had already been discharged. Double-guarantee should not be existing for the same credit with two different titles involving both the government and the guarantors.

It is very rare to see the sphere of authority in a pure form when there is a procedure with more participants. In many cases the Tax Authority – while paying interest rate subsidies or credit-guarantee – must have a conversation with the ministry that provides or judges a support (e.g.: to get answer for the question

whether the original intention of the legislative meets the particular case, thus to be able to decide on lawfulness), or with the Ministry of Finance (usually with the need for taking a position).

The proceedings of the banks and the Tax Authority are further impeded by **the yearly changes of budget-liquidation**. The source for enforcement of agricultural guarantees either appeared in the chapters of the MARD or in the chapters of the MF. In the year of 2004 the total plan for discharging agricultural guarantees were part of the chapters of the MARD, though refund took place in the chapters of the MF. From 2005 the situation seems to clear up, because both discharging of the agricultural guarantee and the refund will be planned in the chapters of the budget of MF.

In the EU one of the problems arisen in relation to guarantee (agreement) was that it had not been limited in time and the price for that had been lower than that of the market. Therefore, it was considered trade distorting. The Commission advised the gradual decrease of state guarantees (agreements) after a transitional period. The transitional period gives time to the concerned parties to adapt the new situation gradually. **The procedures that were criticised by the European Commission cannot exist in Hungary** because, according to the practice in Hungary, the maximum credited amount per farmer, the duration, the amount and basis of guarantee and sometimes even the budgetary ceiling and duration of agricultural support are set. The reporting responsibilities of the banks (set out in Government Decree No 303/2004. (XI.2.) on the national statistical programme in 2005) contributes to the up-to-date monitoring of the agricultural credits.

5. CONCLUSIONS, PROPOSALS

5. 1. Mistakes and parts of the supporting policy needing correction

Motto: „Governmental support is like drugs: it is easy to get addicted, and only in few cases is it possible to give this harmful passion up” (*Fertő, 1999: p.93.*).

The system of state subsidies must be overviewed regarding the situation and agricultural goals currently given. There is a great fear of sources for state subsidies being divided, that can devalue the efficiency of subsidies. **Therefore efficient producing estates, rather than small farms satisfying individual demand should be supported.** Subsidies must firstly encourage the self-building forces of the agricultural industry with establishing success for the self-keeping enterprises in the long run. Unfeasible holdings should not be artificially sustained. Quite a few elements of the current subsidy system can also be used in a demanded system of grants to come.

The upcoming subsidy system however must be clearer, more focused, more motivating and more efficient. Besides decreasing the titles making support possible, introducing a more efficient agricultural regulation that is more protected against misuse is also needed. When improving the subsidy system of the agriculture both the regulations of the European Union and **global challenges** must be paid attention to. At the same time helping the agricultural activity can only be pictured with the available budget sources. The amount of creditable support is also limited by obligations set out in international agreements (GATT-WTO). It is of main importance to use these **sources more efficiently in a way** that gives credit to the aspects of trade policy.

A major problem of the regulation system is that advantages are connected to credits. The government makes the farmers run into debt through the regulators. The special forms of individual guarantee appeared in the credit facilities for agriculture and the role of the programmes is also shown in some latest regulations. In the middle of the 90's **different institutional guarantee programmes were introduced.** Connected to these programmes **state counter-guarantee is also available.** Beyond the above-mentioned conditions, **the resources for the different schemes also increased in value.**

From the aspect of the supporting policy **interest rate-sensibility of the budget** is also an important factor. **High interest rates increase the expenditure of the budget.** Changes of the interest rates influence expenditure and income, therefore the net income of those taking part in the economy also changes (influence on income). On the one hand it means that people having a credit must pay higher interest rates, and on the other hand higher interest rates paid by the producers also mean higher interest rate subsidies. (In the meanwhile, banks gain more and more profit by the interest rates.) Considering that budget-source for the MARD is limited, the agricultural ministry must decide whether the increased demand for interest rate subsidies should be satisfied first, or other supports that can be „applied for on a regular basis” should be suspended. **(The amount needed to be paid for interest rate subsidies consumes the capital available in the budget from other possible programmes.)**

Meanwhile it also must be considered that in case of a legitimate support that's allocation had to be waited for over thirty days, the Tax Authority must pay a default interest, which is also charged on the budget. Not to mention the **determining impact.** The determined amounts means more and more problems for the national budget, as well as for farmers, year after year. Beside that, the rules of the EU's ex-post financing support system allow farmers to receive their support amounts only about one year later then they had used to.

All those, increase the liquidity problems of farmers. But, that connects to the increase in related state risk too, as in situations when the farmer cannot pay back his credit obligations, the bank considers the debts outstanding and activate the state guarantee immediately, which means – apart from the above mentioned increase in budgetary commitments – additional budgetary expenditures. For the present, there is no practical option to increase the national aids within the budget of 2005. While the possibilities to receive EU funds increases, the role of the MARD in supporting decreases. **As the previously introduced credit options will come to their ends, the budgetary appropriations for interest support and state guarantee disengage, possibilities can come up for the introduction of new support instruments.**

5. 2. Channels of the future

Motto: „Signs that must not be ignored show up on Europe’s sky, and each wasted year consumes newer and newer sources in domestic conditions...” (*Revival of the Nation – selection from Kossuth’s essays and speeches, In: Pajkossy, 2002: p.89.*).

Credit-guarantee

The role of the state as a guarantor has changed since 2004. **Direct forms of state credit-guarantee** – on legal basis and/or individual ones – **decreased** in number **while the rate of indirect forms** of these constructions such as counter-guarantee or interest rate subsidies **have increased**. (Figure 1)

In my opinion this tendency is going to be stabile, what’s more, **„indirect” programmes will come into the front.**

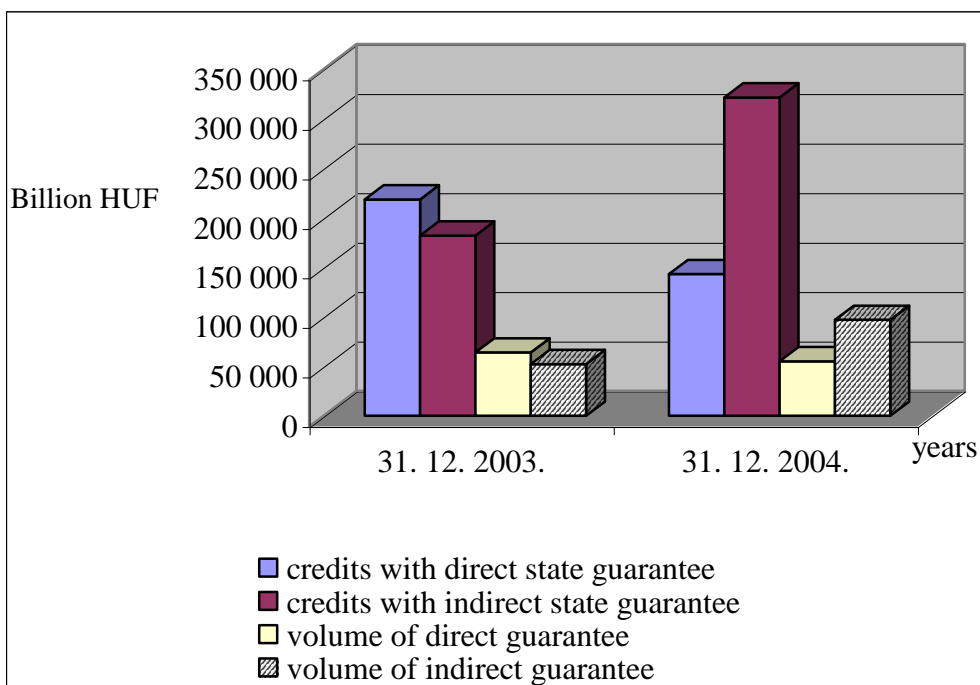


Figure 1

Data of supported agricultural credits

Source: Ministry of Finance, monthly banking reports

In the case of agricultural credit-schemes – because they are closed constructions – there should be no more demand accepted. Thus the credit-stock of these and state credit-guarantee in connection with them is also going to diminish. For the introduction of new credit-programmes ratification of the Committee is needed in advance. Considering the behaviour of the Union (and other international organizations) in the field of state support and their attitude towards some measures that deformed the market/competition it can be stated that **no such direct state credit-guarantee will occur in the future that have ruled Hungarian agricultural regulation since 2000.**

In contrast with this, state credit-guarantee provided in an indirect way shows a more favourable picture for the future (Figure 2). Institutions of credit-guarantee can be found in the European Union, too, and in the creation and operation of these institutions the government (one of its departments) also takes part.



Figure 2

Credit-guarantee Institutions in Europe

Source: The Homepage of AECM (www.aecm.be)

During the **notification** in August 2004, the MARD reported the activity of Rural Credit Guarantee Foundation and Credit Guarantor Ltd. to the Committee as an existing type of support with the possibility to take credit-guarantee and counter-guarantee upon themselves. The MARD Decree of 25/2005 is still valid. According to this, in case of credits given under legal conditions where there are two guarantors, the budget reimburses 50% of the debt taken by the guarantors. Furthermore interest rates subsidy is also available with this construction. The only problem of the programme is that the agricultural ministry suspended these paragraphs at the end of last year thus interest rate subsidies and credit guarantee can not be enforced. In my opinion, with continuously lowering determination, the opportunity will be recreated and the well-operating credit construction will have an open road again. In addition to this, in certain ARDOP (Agricultural and Rural Development Operative Programme) tenders, role of the guarantor is also possible. Sooner or later, those can be supplemented by additional credit programmes, which would be established by the “product-developer” personnel of the guarantor institution and would not operate under the “supervision” of MARD.

In recent time, an idea appeared that **Hungarian credit institutions should be organised within one institution** and different technical opinions from national experts responded that idea. Some of them think that putting the organisations into

one institution could result in a guarantee-system, which is more effective and can fulfil the needs from different sectors. According to the other opinion, which I also share, the creation of a monopoly situation on the market of credit guarantees would not be right. In my opinion, **the monopoly situation would**, on one hand, **harm the competition rules** (national and of the EU) and, on the other hand, **it would also mean the union of organisations, which operate nowadays successfully on the different fields of economy**. For example, AVGHA is specialised for organisations of agricultural and rural development related fields (agricultural producer, private entrepreneur, family farmer, SMEs, integrators, producer organisations), while Hitelgarancia Ltd. focuses primarily on the needs of the SMEs and, compared to the previously mentioned institution, only takes smaller part in financing the agricultural sector. **The legal possibilities (impossibilities) of the union also have to be taken into account**. The main concerning issue is that an organisation that had been set up with ECU 11 million and operates as a foundation (AVGHA) can be terminated/re-organised only within very limited legal possibilities. Besides that, one of the founders was **the EU**, which **should be consulted and convinced on such an organisation change**. As the competition law of the EU contain strict provisions, the chance for such changes is very limited.

Insurance

I introduce the topic of insurance companies also as part of my dissertation, with emphasis on the national and international practises to ease the impacts of natural damages and disasters (with examples from Italy, Spain, Portugal, France, Denmark, Germany and USA). Insurance arrangements are alternative solutions for ex-post financial compensation for natural disasters and damages happened on national or EU level. Some countries have already set up their system in order to promote insurance agreements concerning such damages and cases. Those systems have to be in compliance with the EU regulations on state aids as well as with the relevant WTO requirements (green box).

Similarly to international practises, **supported fees of agricultural insurances** had been operational by the end of 2003. Within the framework of that, the national budget financed almost HUF 3 billion arrangements through the mean of supporting 30% of the relevant fee as set out in MARD Decree No. 2/2003 (I.24.). Though, that support system had terminated since 2004, **the repeated introduction of the scheme is possible within the framework of the so-called “csopórtmentességi rendelet”**. According to that, Member State can, without any prior reporting or authorisation processes, pay certain amounts (50 or 80% of the total fee amount) of insurance fees, due to be paid by producers, from their national budget. I find that the re-introduction of the scheme is worth considering, as the state would promote the decrease of risks related to farming.

A special insurance-support scheme had been operating in Hungary until 2004, which was **the support for the establishment and operation of agricultural insurance unions**. Within the framework of the above-mentioned programme, almost 30 agricultural insurance companies started their operation through the country. The programme has met its goals, so it could be terminated.

The credit options (interest supports) in connection with the natural disasters and the so-classified damages are explained in chapter so-called “Irodalmi áttekintés” of the dissertation. In contrast with several EU-15 Member States – where regulations notified to the European Commission set out the support means that can be implemented and used in the cases of damages and actions are taken in line with those – the Hungarian administration implemented specified, case-by-case support means, like for example MARD Decree No. 84/2003. (VII.22.) sets out the rules and options in relation to producers suffered from freeze or drought in the year 2003. Therefore, whenever again a disaster will come, the Commission shall be contacted to authorise the introduction of the programme. The central administration, as well as the producers would find it easier if **we had a prepared a so-called frame-regulation**, which would enable the Government to take immediate action without any prior administration processes. (In that case, there would be no need for the national Government to ask approval from the Commission, because a frame-regulation would be notified as an overall regulatory instrument for the similar support programmes. Specific decisions and schemes in relation to special cases, then could be made and introduced based on the frame legislation.)

An idea appeared in recent times concerning the establishment of a **“Disaster Fund”**. That fund would collect money from the farmers and the same amount would be provided by the national budget. When a national disaster or damage reach a certain level, only those farmers can be financed from the Fund who had previously contributed to its operation. In my opinion, the establishment and start of the Fund will begin slowly, because **willingness of the farmers to contribute to a fund will be very low. The successful implementation of the programme also determined by the positive and persistent attitude of the administration**. (The state attitude following the first large disaster can help, but can also cause the fail of the Fund. As, for example, if the case is that not only those producers can benefit from the Fund who had previously met the financing obligations in order decrease risk factors, the whole group of concerning producers would lose their trust in the Fund and that would not gain any resources. And without contributions from producers, the Fund cannot have any money from the state budget. Therefore the fund would not be able to fulfil its purposes and would stop its operation.)

Considering the fact that there is no foretold and published integrated disaster extenuate system for the prevention of natural disasters, decrease of related impacts in the Hungarian agriculture, **there is an urgent need to establish such well-**

defined (for the producers and for the administration as well) disaster prevention/ extenuate system for natural damages as well as the relevant legal background for its operation. An important role should be given, within that system, for the options of extenuate natural damages that could not had been insured. The introduction of the new system can be supportive when liquidity problems arise as a result of damages and when the continuous production must be maintained.

Factoring

The shortage of capital can be solved not only by short-term bank loans but also with factoring. Factoring activity is mainly employed by small enterprises that can not give enough deposit to receive a bank loan. Factoring also became an option in agriculture. The MARD allowed financial institutions **to finance the top up support** given to the farmers beforehand.

What's more, this possibility was supported by the special ministry with undertaking a part of the bank risk (MARD Decree 91/2004). The Ministry also made some legal measure modifications (e.g.: the Act of 2004. No. XXVII about harmonizing previous acts of financial topic), which has increased security for the banks (the Tax Authority could transfer the money on a central account provided by the bank and there was no reconciliation with outstanding public debts). Four institutions dealing with factoring took part in the programme (based on tender). They accepted 165 thousand requests for pre-financing altogether, and granted HUF 46 Billion as deposit to the farmers. The budgetary concomitant of the construction was HUF 2,2 Billion (Table 2.).

Table 2

Pre-financing on the basis of the MARD Decree 91/2004. (V. 20.)

Description	Accepted subsidies		Granted loans (Billion HUF)	Budgetary concomitant (Billion HUF)
	Piece	Billion HUF		
Sum	165 047	48 022	46 102	2 219

Source: Ministry of Finance, monthly banking reports

Being enthusiastic because of the success of last year's pre-financing programme, the banks have created their factoring schemes, which are supported by the Government as well (modification of the Act on Taxation (AT) XXVI/2005). There is no direct budget-source connected to factoring by now. Banks must pre-finance different budgetary supports based on the market. In the field of agriculture it means that supports financed out of the central budget can be factored (e.g.: top up), those (co-)supported by the EU cannot be.

In case of factoring a budget-support – supposing that the tax-payer inserts the contract to his tax return – the authority transfers the amount of support to the account of the financing institution that provides the factoring activity. The inland revenue office can practice its right to withhold the money in case of existing debts of the tax-payer. Support based on territory coming from the European Union (SAPS) is going to be over HUF 90 billion this year. 80 percent of the SAPS-supports will be given to the farmers between 1st and 31st of December according to the agricultural agreements. At the same time, whoever needs the money earlier can apply for factoring based on market conditions, and finance summer-harvesting from this. The amount of the so-called national amplification (top up) is equal to SAPS-support this year, though it will only be paid from the beginning of next year because of the post-financing of the Union, yet this source can also be factored.

Besides the above mentioned, most of the financing institutions have created **loans within the year**, also with the intention of pre-financing. Transfer of the loans is market-based. No governmental support is connected to these patterns. **Pre-financing SAPS-supports besides top up in case of agriculture has also been brought up in several locations.** There are constructions where farmers having public dues can only take up a loan for making an advance for SAPS, and not for top up. The reason for this is that top up financed from the central budget can be reconciled with public dues (thus the farmer and the bank can only get the amount of support decreased by the public dues) while in case of SAPS coming from the Union there is no such budgetary opportunity. It is visible from the different programmes that banks charge a high price for loans (in case of pre-financing, 80 percent of the support is transferred; the interest rate – converging to the maximum amount announced by the MARD – is three-months BUBOR + 2-3 percent, with which additional costs can be counted). At the end of the duration time it can occur that the support available for the farmer (100 percent) does not cover the loan and its costs. **This must be something worth thinking about for the farmers.**

6. SUMMARY

Agricultural policy has a special role in every country's economic policies, which is due to the special characteristics of the agricultural sector. One of the special characteristics of agricultural policy is that the role of state support is considerably high. The governments of different times supported the activities and subsistence of agricultural producers, through their own "agricultural policy". The government interventions in agriculture are of several kinds both in the European Union (EU-15) and in the countries that become Member States in 2004, though they went through amendments during the preparation for the introduction of the EU's Common Agricultural Policy.

A widely popular form of supporting policy is helping agricultural enterprises to get loans, which mostly happen with interest rate subsidies and state credit-guarantee. These supports have wide-range of legal measures both in Hungary and in the European Union. I tried to demonstrate this while highlighting the shortages of domestic practice at the same time.

In the Hungarian practice the following supported credit facilities can be obtained in the agricultural sector:

- **schemes implemented solely through state support for interests** (e.g. investment-related credit facilities published annually in the Ministry's regulations)
- **credit schemes implemented by state interest support and state legislative guarantee conditioned upon legal act(s)** (one-year credits which contained in ministerial decrees, except for aids for quality production),
- **credit schemes implemented by state interest support and state legislative absolute guarantee** (farmers' credit programme introduced by Government Decree No. 30/2000. (III.10.)),
- **credit facilities introduced with state interest support and state individual absolute guarantee** (guarantee for Bábolna Ltd.),
- **credit schemes executed by state interest support and institutional guarantees** (credit programme to "supplement capital" as annually introduced by ministerial decrees, Europe Plan agricultural credit scheme introduced in 2004), which include that counter guarantee commitments are made by the state in the annual act on the national budget against the institutional guarantees;
- **"hybrid"-programmes** ("drought-credits", Hajdú-Bét Ltd., Parmalat Ltd.).

The state guarantee and the counter guarantee are complicated systems of support in the agriculture. The popularity of those schemes are also shown by the fact that the total value of implemented credit programmes until 31 December 2004 was over HUF 464 billion, in connection to which HUF 55 billion worth state guarantee and 100 billion HUF worth institutional guarantee were provided. The rate of foreclosing guarantees is very low, compared to the total amount of appropriations (the state tax authority paid out HUF 390,5 million for agricultural guarantees in 2004). Considering the budgetary aspects, the payments of interest supports of credit schemes can reach over HUF 22 billion in 2005. The MARD notified the European Commission on "existing" state aids by 31 August 2004. The notification included the Hungarian schemes of interest support and programmes executed by direct or indirect state guarantees. The main part of agricultural credits resorted with state support are long-term loans, the related contracts were usually signed with the duration of 15-20 years. Therefore, if the competent DG of the

European Commission does not raise any objections against the schemes, they can be implemented until 2017-2022. However, their volume will decrease, but the financial (payment) commitments made by the state (interest support, guarantees) can be applicable by that time.

Following Hungary's EU accession on 1 May 2004, new age started on the field of agricultural supports, too. The field of possible state supports has narrowed and the European Commission has the role to comment on the support systems of Member States. And this is the time when the decision makers of the agricultural policy, as well as the farmers have to learn the new circumstances.

The Hungarian Government will still have the possibility to provide state supports attached to credits, but the prior agreement from the Commission is necessary. The national practise has some latitude due to the introduction of the "de minimis" rules, in the framework of which, national programmes can be introduced including state supports for interest rates, direct and indirect guarantees (but the sizes and frameworks of the programmes shall be established in line with the relevant EU rules). At the same time, after last year's practice financing institutions started to pre-finance direct supports (top up, SAPS) based on the market with either factoring or short-term loans. This way the range of opportunities for the farmers became wider.

As it is typical of all the enormous and unified markets, it is also typical of the EU that decision-making of the consumer is only controlled by the available money, but besides that it is boundless. In the meantime, survival of the farmers depends on the quality of their work and their productivity including modernity and efficiency of the organization and governance framing their activity, and also on the competency and responsibility of the governmental economic policy framing the activity of the entrepreneur. Specific position of the sector and the importance of those participating in the method of decision-making regarding this sector – though agricultural conditions have considerably changed since then – is well-described in Ferenc Móra's novel, „Song about the wheat-fields”: „.....no matter how crusty the farmer's bread is, after all everyone's bread is in it”.

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8. PUBLICATIONS

1. Learned journal

Articles in Hungarian parlance

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