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INFLUENCE OF WORLD FINANCIAL CRISIS ON DEVELOPMENT
OF UKRAINIAN AGRARIAN SECTOR

ODDZIAŁYWANIE ŚWIATOWEGO KRYZYSU FINANSOWEGO NA
SEKTOR ROLNY UKRAINY

Key words: *financial crisis, agrarian sector, Ukraine*

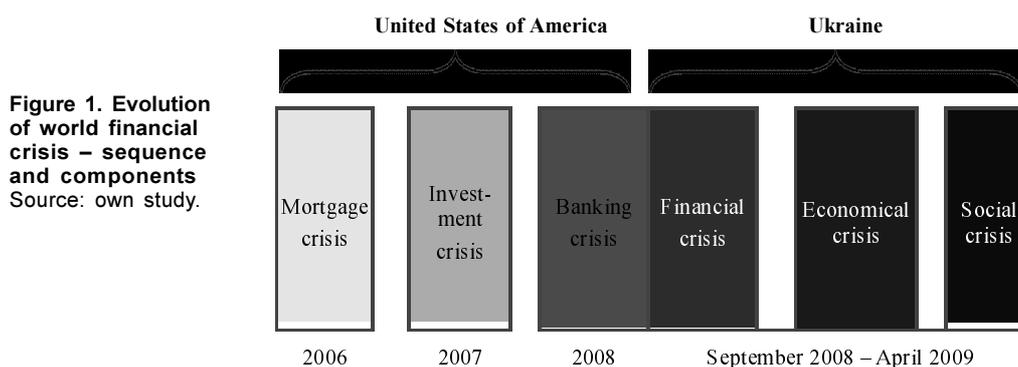
Słowa kluczowe: kryzys finansowy, sektor rolny, Ukraina

Abstract. In the paper the impact of world crisis on field of finance on situation of ukrainian agrarian sector have been presented.

Preface

The recession on real estate market which started three years ago in the USA, because of ineffective investing policy of some companies, at first, caused mortgage real estate crisis, then investment crisis of stock market; then it turned into the world financial crisis in banking into which the global world economy was involved. International financial centers together with other world financial institutions such as USA Federal Reserve System, International Monetary Fund, World Bank with various auditing companies cooperating with scientists, including Nobel Prize laureates, appeared helpless and inactive and really became transnational crisis bridges. But in time, state governments took wide financial and economic actions to overcome recession of national economies after realizing its level.

Introduction



As it represented by figure 1, In September and October, 2008, Ukraine seemed to be able to overcome the world financial crisis without great losses. Till August GDP of Ukraine had been increasing, the inflation stopped, NBU made emission interventions to avoid revaluation of hryvnia (Ukrainian national currency), the exchange rate of US dollar to UA hryvnia was lower than official one.

However, since September foreign investors began to withdraw some financial resources which were risky for banking system. Together with mass deposit withdrawing this involved financial and

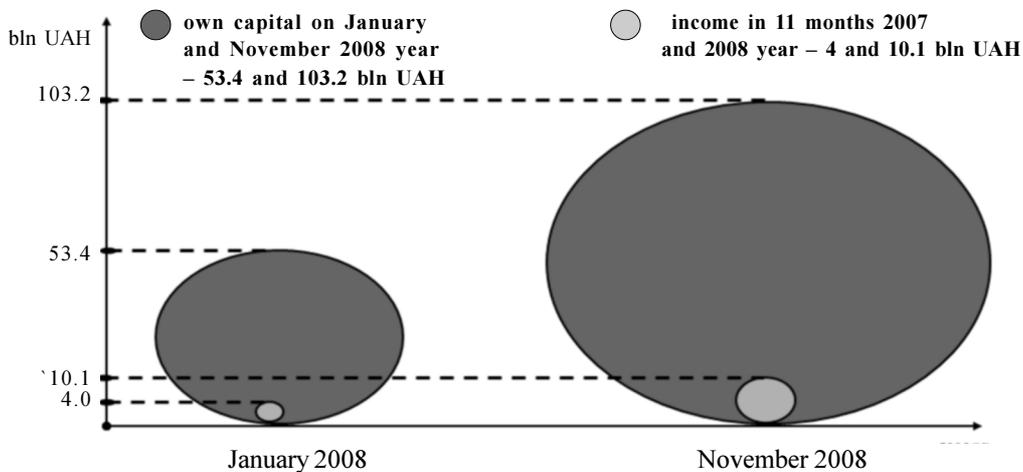


Figure 2. Forming of own capital and income of banking system in Ukraine
Source: own study.

currency market into panic. Economy production reaction appeared adequate to this situation – the real GNP began to plummet. So, in September, 2008, firstly since 2000 the State committee of statistics had recorded the GDP decreasing of 2.1%, at the end of February, 2009, it declined almost to 20%.

Despite of self restrictions metallurgy was influenced the most among the branches of national industries. The greatest fall of production cost occurred in November and was 37,0% comparing to July. The same decreasing of the branch, but much slower, occurred in other countries, too, e.g. Turkey – by 21%, Russia – by 15%, China – by 13,7%, USA – by 13,3% [Bulletin... 2009]. Dynamic of production capacity in industry, construction, freight transport caused the falling of GNP during the last months of 2008. Industry was the first branch in Ukraine which showed the crisis getting into social area, numerous redundancies and income and social security revision. The first two months of 2009 demonstrated breaking positive tendencies in increasing of steel production from 68.500 tons of average daily production in January to 82.300 tons in February.

The last six months showed vulnerability of Ukrainian economy not from outer financial factors. The shortsighted monetary policy of NBU caused bank speculations and national currency devaluation, which was 74% from September to December. In such period some foreign currencies also devaluated, e.g. Icelandic Crone – 58%, Hungarian Forint – 52%, Russian Ruble – 39%, Czech Crone – 38%, Turkish Lira – 35%, Polish Zloty – 23%, Belarusian Ruble – 21%, Georgian Lary – 14%. Problems in banking system of Ukraine didn't appear accidentally. Analyzing the figures of picture 2, according to NBU, for 11 months of 2008 the proper capital of the banks increased by 48.3% and was 103.2 bln UAH at the beginning of December; banks profit grew by 10.1 bln UAH only in January – November, or by 60% comparing to the same period of the previous year. Simultaneously, during 11 months of 2008 the banks assumed obligations of 220.1 bln UAH, from which only the credit portfolio of Austrian Raiffaizen Bank Aval was € 5 bln. At the beginning of the winter 2008 general amount of credits of Ukrainian banks made 750 bln UAH, among which 508 bln UAH or 67% are people's money. During 2004-2008 citizens got 650.000 unpaid cars in credit, among which 80% became a real problem. „Financial crisis helped me to stay on foot – the bank got back my car because of not paying for it” – this phrase has become the most popular explanation of the crisis in Ukraine.

The crisis in banking system because of confidence losing to banks is the effect of reckless and risky policy of the majority of them, which, in chase of mortgage over profits, became no liquid. In November, 2008, currency loans, especially foreign ones, unsecured by their own assets, led to withdrawal from banks around 7.4 bln UAH, among which 4.6 bln UAH are natural persons' money and 2.8 bln UAH are legal entities'.

Theoretical background

The experience of anti crisis policy of countries and their governments in the previous century shows that the economic policy of the countries which was oriented on big business and market self regulation by „invisible market hand” as in the USA, became the reason of crisis. Starting with the collapse of Stock Exchange on October, 29th, 1929 the crisis affected industry and got involved in agriculture where farming prices fell down by three times during the period till 1933. State intervention into private business by regulating economic and social processes was the result of „New course” of Roosevelt’s administration. So, especially for regulation of agriculture the new law according to which farmers got compensation for every unsown hectare was approved. Financial resources were formed by introduction of 30% tax on flour and cotton to realize such supporting mechanism.

Similar views on the role of the state in social production were in post-war Germany where neoliberal school put forward the idea that order formation in economy and society is the task of a state. Scientists affirmed that the main task is formation of social oriented society supported by functioning of a strong state.

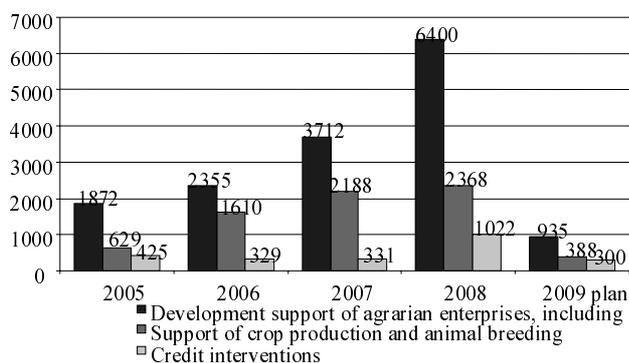
Analyzing historical examples of these countries together with anti crisis experience of the others let us make certain generalizations as to economic methods of intervention. All generalized scientific conceptions of economies regulation, especially in crisis periods, include the main measures: demand stimulation, aggregate supply regulation and the volume of money emission.

Results and discussion

Agriculture of Ukraine, which was rather favorable, finished the year 2008 under conditions of pessimistic expectations for the developing of national economy in the nearest future. Record grains yields, significant increase of all main crops yield raised agricultural production by 17.5% [Reports... 2008-2009]. According to the Ministry of Agricultural Policy, in 2008 agrarian sector, which rates of growth, as a rule, are lower than general economic ones, became the leader of national economy: the rate of GDP growth was 17,5%, including agricultural enterprises –35,2%, what was in three times as much average index of the state. Intensive development of food market promoted the increase of 40% of cash flow from agro industrial complex enterprises to the State Budget. In 2008 AIC taxes were 17,3 bln UAH [Bulletin... 2009].

Record yields significantly improved the indices of foreign economic activity of agrarian sector. For marketing period till the beginning of March, 2009, export of agrifood products doubled, which is more than 16mln tons. In February grain export was 1.9 mln tons, including wheat – 950 th. tons, corn – 600 th. tons, barley – 350 th. tons, which is by 18% or 300 th. tons more than in January [Reports... 2008-2009]. After significant price decrease at the end of 2008 and during the first three months of 2009, prices on foreign market became more favorable. Export success of the branch ensured doubling of positive balance of foreign trade activity of agrarian sector. The tendency allows counting on rising of agrifood products export to 30 bln USD and positive balance will be higher than 22 bln USD by the end of the current marketing year. In other words, during 2008-2009 marketing year agrarian sector will involve into banking system of Ukraine some times as much USD, as payment currency, than the first and expected second trenches of IMF and credit of the World Bank [Global... 2008].

Along with the success it is necessary to admit that nowadays a native producer is not able to change for about 30% of import. So, in 2008 import of agrifood products according to the previous data was 5,5-6,4 bln USD.



Rysunek 3. Budget programs support of agro-industrial enterprises [bln UAH]

Źródło: badania własne, na podstawie danych GUS.

The world food crisis of 2007-2008 created the most favorable investment and innovative conditions for the development of agriculture not only in Ukraine. On the whole, analyzing 2008 according to the general production and economic indices of branch development we cannot say that it was crisis for agriculture apart from social component of the rural areas development. But some financial issues which took place at the end of 2008 have great influence on the budget support of the branch at the current year (Fig. 3). Does it mean that the branch will be able to keep the positive development tendency under the conditions of world and national macroeconomic crises? Will agrarian sector be able to be or a „savior”, or, at least, a regulator of national economy under difficult conditions of 2009?

It is clear that development and realization of anti crisis measures by the scientists of UAAS is founded on fundamental scientific theories, certain our analytical expectations and extrapolations as to the development of national economy of Ukraine. At the same time the analysis of consequences of crisis dynamic for consumers, producers and the state, on the whole, is rather difficult. The researches made about directions and measures regarding its consequences overcoming, on our point of view, should be combined with, at first, measures concerning continuation of state stimulation of agriculture production through the proper programs of budget support of national producers; secondly, proper social policy of demand stimulation on national production; thirdly, stabilization of monetary policy of NBU by formation of the national currency rate, credit interests that under conditions of banking system activity decline and substantial decrease of credit portfolio for agriculture has to contribute into economic development of the branch [Resolution 2008, Gudz 2008]. Events development forecast in agrarian sector we foresee like this:

1. Agriculture is a seasonal branch which needs credit resources accumulation in defined technological period. In 2008 the amount of credits got by the branch on preferential terms increased by three times and reached 9.7 bln UAH. According to calculations, in 2009 there is a need of about 26.5 bln UAH, including expenses on purchasing material resources – 14 bln UAH. It is forecasted that the own finance of producers or agricultural productions – about 9.5 bln UAH, bank credits – 6 bln UAH, bank credits of the previous years with their prolongation – 3.5 bln UAH, funds of state and local budgets – 2 bln UAH, and finances of agrarian fund – 1 bln UAH will be the sources of finance. It is clear that credit activity of banking system nowadays, in 2009, is falling; if this fall does not decrease, agriculture will face the problem of financial deplete.
2. The analysis proves that pace of preparation to the spring sowing campaign of 2009 is much slower comparing to the previous year. At the beginning of February, 2009, fertilizers supply was 23% vs. 43% last year, herbicide supply 11%, mordant (seed trippers) supply – 26%. Taking into consideration that sowing area under winter wheat was increased by 11%, 8254 thousand of hectares have been sown, the analysis shows that in 2009 grain yield will be a bit lower than in 2008 – about 46 mln tons – the main part of which will be exported. Although Agrarian Fund is planning to buy 1ml. tons of grain for state food reserve through forward purchase but the pressure on market equilibrium of grain supply on domestic market will be great as well. That is why with the aim of profitable prices guarantee we would offer producers to make contracts about further production supply to customers, in other words future and forward contracts.
3. Animal husbandry has prerequisites not only to break the negative tendency of livestock decrease, but to start its revival in structural segment of meat markets, and, first of all, due to extensive development of pig raising on private farms together with the simultaneous development of intensive industrial production. Here our mutual offers with Ministry of Agricultural Policy should be aimed at decreasing import meat quota because import – about 550 th. tons of meat – makes national meat producers unsure in prices of their own production.
4. Necessity of barter while buying production resources will become reality for agricultural producers under conditions of significant reduction of budget expenditures on agriculture support. Some foreign companies, suppliers of plant protection means are organizing subdivisions for making agreements on negotiation of promissory note in their structures.
5. Possible balance losses of agriculture can be expected from correlation of pluses and minuses caused by devaluation of national currency. Devaluation could be considered as the protection from competitive import. Based on our researches it gives the advantages to an agricultu-

ral producer while exporting his production, as earnings in UAH from export is nearly the same as incomes from agrifood products realization last year. But it is unprofitable on the market of production means which are bought abroad. In 2007, 200.000 agricultural machines and equipment worth of about 10 bln UAH, 80% of which were imported, were bought. Agricultural energy resources are mainly imported, and so are the most part of animal and plant protection means. Calculations prove that devaluation, generating import more expensive, will be harmful for innovative renewing material and technical resources of agrarian sector and, at the end, leading to the problem of import resource covering and to agrifood products rising in the prices. We could recommend producers to make their export contracts in euro but import ones – in dollars due to our hypothesis as to cross-rates of these currencies will be in favor of euro in the future [Global...2008].

6. We emphasize that price pressure on consumer goods in retailing is very dangerous. Ignoring certain falling prices on domestic agricultural raw materials and significant price growth on imported food, supermarkets raise prices to the level of imported goods solving their own problems of payments for foreign investments with the help of growing profits [Fageberg, Sollie 2008].
7. Growing price disparity on industrial resources of the first sphere and agrifood products of the second sphere of agro industrial complex will be critical according to its influence on efficient management of agricultural production. There has been a rule in AIC of Ukraine according to which the prices on production of the second sphere during lean years (2000, 2003 and 2007) grow faster than prices of the contiguous spheres. In other years proportions of price dynamic on the home market were not in favor of agriculture. So, during 2008 prices on industrial production consumed by agriculture increased by 50%, consumer prices on food products – by 40%, but prices on agrifood products at domestic market – only by 23%. According to the above mentioned the branch science needs to generalize advantages and disadvantages of the existing technologies in animal husbandry and plant growing as soon as possible, to offer technological policy recommending use on practice the most innovative and efficient technologies – from organic to intensive cost production.
8. According to the common problems in social life of Ukraine, resulting in 2009 decrease of social protection of population and unemployment growth, it is evident that the volume of consumed products will be smaller than the previous ones. Being demonopolized branch, having the definite maximum price limit of solvent demand of mass consumers who have switched mainly to private home food agriculture will not be able to raise the volume of retailing of agrifood products of their own production on domestic market in the current year.

There is such general analysis of economy state from macro to micro level and the directions of our actions as to development and realization of preventive reaction measures for 2009 and the nearest future. Which measures have already been taken by the scientists of TSC „Institute of agrarian economy” of UAAS in cooperation with Ministry of Agricultural Policy and Cabinet of Ministers of Ukraine? What should be done to soften the crisis together with common state measures of refinancing banking system? To support the economy under extraordinary conditions of its functioning on October, 31st, 2008 the Law of Ukraine „About immediate measures to prevent negative effects of financial crisis and make changes into some legislative acts of Ukraine” was approved, Decree of the President of Ukraine „About additional measures as to overcoming the financial crisis in Ukraine” on November, 17th, 2008, which stipulate facilitating of tax pressure for Ukrainian agriculture. So, since January, 1st, 2009 the next measures are expecting:

- special regime for imposing of VAT is introduced. Next year it will make possible to subsidize more than 7.4 bln UAH vs. 6.8 bln UAH in 2008 for agricultural producers,
- fixed agricultural tax with annually effect of 2.5 bln UAH has been prolonged for producers to January, 1st, 2011.

The law of Ukraine „About making changes into some Laws of Ukraine as to prevention of negative effects of the world financial crisis on the development of agro industrial complex”, but with the specialization of influence instruments especially for agriculture is under the procedure of approving in the Supreme Soviet of Ukraine. It stipulates:

- compensation of interest rate on prolonged credits for business entities of AIC till June, 1st, 2009,

- improvement of export and import operations regulation as to animal and plant production as to products of their processing. It is about import restriction and export stimulation,
- regulation of grain market formation which is the object of state purpose-oriented regulation through Agrarian Fund and establishment of price regulation rules of some services as to above mentioned grain, in particular transporting,
- introduction of program and purpose-oriented method of financial support providing in the agricultural production development and agrifood markets regulation.

Conclusions

Not denying the usefulness of already approved legislative acts, scientists and managers' efforts, it is worth to say that in 2009 they will have limited effect. Also they have not had a great influence on budget support of agrarian sector in 2009 as the budget approved by the Supreme Soviet arises from decrease of its revenue, in other words its deficit. Moreover, agriculture support will not be able to compensate difficult macroeconomic conditions of domestic supply and demand for the branch on Ukrainian market. On other side, the negative feature of crisis in Ukraine, comparing to other countries, is synergetic effect of joining financial and political crises.

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Streszczenie

W opracowaniu Autor podjął problematykę oddziaływania kryzysu w skali globalnej na finansowanie rolnictwa ukraińskiego.

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