Study on the Influence of Subsidies on the Economic Situation of Agriculture in Romania

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ABSTRACT

The purpose of this article is to determine if the subsidies granted in the agriculture of Romania influence the economic state of the agriculture, and if so how. After consulting the literature, some authors found that financial interventions are beneficial in some states, and other authors found that in other states the subsidies have a negative impact, so the question arises from the research of this study, which is the influence of granting subsidies on agriculture in Romania?. Data is analyzed regarding the economic accounts in agriculture to determine their evolution, and in the second part of the article an analysis of the coefficients of variation between variables is performed, and following the determination of the dependent and independent variables a model of simple linear regression. Following the correlation of the subsidies with the added value of agriculture it can be considered that the subsidies have a positive impact in Romania, when they increase, and the added value of the agriculture increases.

KEYWORDS

Correlation, Impact, Romania, Subsidies, Value Of Agricultural Production

INTRODUCTION

Agriculture continues to be an important sector of the Romanian economy. The share of gross value added from agriculture in total GDP fluctuated around a long-term downward trend in Romania’s transition to the market economy.

In the pre-accession period, the contribution of agriculture (including hunting and forestry) to GDP formation reached a maximum of 14% in 2004. In the following years the share of agriculture in the gross domestic product of Romania decreased, reaching 8.8% in 2006. The decrease of agriculture’s contribution to GDP formation also continued in the post-accession period, which was only 7.5% in 2008, but this percentage far exceeds the average contribution of agriculture to the GDP of the European Union (1.8% in the EU- 27 in 2007). The data reflect the continued decrease of the share of agriculture in GDP after 2006, while the rest of the activities increase their share in GDP, especially the constructions, trade and financial intermediaries. The significant economic growth from 2007 is due to the non-agricultural branches, and in 2008 agriculture resumed its pre-accession trend. (Toma, 2010)

The agricultural policy measures applied in Romania are numerous: single payment scheme on the surface; national complementary payments per hectare and per animal; different forms of support for market-intervention measures; other forms of support from the state budget for sensitive sectors
and activities in relation to market requirements or for structural adjustment in order to eliminate the disparities with the EU. The application of the direct payment scheme in Romania aims at practicing a competitive and sustainable agriculture, oriented towards the market. The allocation of direct payments is conditional on compliance with the requirements of good agricultural and environmental practices. (Kropp & Katchova, 2011)

Combining market mechanisms with direct payments and rural development measures follow the overall development of the rural economy (Patton, 2008).

The value of the agricultural production in Romania has registered increases in the last period, this increase may come from the increase of the two main components of this indicator, respectively a higher production and / or, an increase of the price of recovery at the farm gate. These two components can have both internal and external influence factors. One of the external factors that can contribute indirectly to the growth of agricultural production and implicitly to the increase of the total value at national level, is the subsidies granted in this sector. Providing them at the optimum time for each activity in the agricultural sector in Romania and correlated with the difficulties encountered in each sector and optimally dosing them will lead to a development of agricultural production at national level.

LITERATURE REVIEW

As mentioned above, the value of agricultural production can be influenced, in addition to the direct and external factors, a study by Alboghdady (2016) analyzed the impact of climate change on the variability of agricultural production, and among the conclusions of the study are the following: “1 per cent increase in temperature during winter resulted in 1.12 per cent decrease in agricultural production”.

Romania recently joined the European Union, respectively in 2007, and since then has been subject to the Common Agricultural Policy of the community. Although during the pre-accession period of the Romanian farmer they benefited from certain subsidies from the national budget, once the accession to the union, the level and volume of the subsidies from agriculture were considerably increased. And over time it has become essential for the promotion of high-performance agriculture, as can be found in a press statement (Dobre, 2018), “you will never be able to do performance with a small subsidy.”

Among those who have also studied the impact of agricultural subsidies, He (2016) also evaluated the impact of the change in the payment policies of Chinese subsidies, and among the results is the assertion that, “input subsidy policy has more effects on production while area payment has more effects on farmer’s income; and the sensitivity analysis further indicates that input subsidy policy has more influence than area payment as regarding production impact ratio, while area payment has more influence on income impact ratios.”

Another research in this regard is that of Koç (2019), which analyzed the effect of government support on Turkish agriculture, and among the findings is that a one percent increase in government support in a province generates direct mixed effects and spread, which results in an overall reduction of 0.13 percent of agricultural added value per hectare in Turkey. On the other hand, the same author states that an increase of one percent of agricultural loans in a certain province leads to an average increase of 0.17 percent in agricultural value added per hectare, including 0.05 percent of the direct effect and 0.12 percent of the spillover effect.

Further research in this regard has been done by Wang (2012), analyzing the effect of government direct payments on US agriculture; The results of the study suggest that current direct government payments have negatively impacted US agricultural production and export, and late influences have been positive, but overall, the impact of direct government payments has been very limited.

It can be appreciated that the external interventions regarding the financing of agriculture would have different influences. These differences may be due to the way these financial supports are
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