

# COMMERCIAL BANKS AS SUPPORT FOR RURAL DEVELOPMENT OF SERBIA<sup>1</sup>

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## Abstract

*The subject of the analysis is the determination of changes in the structure of bank claims from public companies and companies in agriculture, forestry, and fishing, as well as from registered agricultural producers by purpose period from 2010 to 2020. The obtained results show that the claims of banks from public companies increased by 15.6% on average per year and from business companies by 5.4%. Bank claims from registered agricultural producers recorded the highest average annual growth rate in loans for liquidity and working capital at 21.8%. The purpose of the research is to look at the involvement of commercial banks to determine whether the share of implemented agro loans in the total disbursed bank loans is changing in their credit portfolio. The paper presents the results of the banks' operations period from 2017 to 2020 and analyses: commercial bank, Banca Intesa, and ProCredit bank. The achieved results show a constant increase in the share of realized agricultural loans in the total disbursed loan funds.*

**Key words:** *rural development, commercial banks, agricultural loans*

## Introduction

Serbian agriculture has been neglected, unstimulating and uncompetitive for exports for decades. Regardless of the mentioned shortcomings, this activity realizes a surplus in the balance of payments and contributes to a better result in the foreign trade balance. For this sector to continue to be the bearer of economic stability, additional investments in the agricultural sector are needed, which can be realized through the role of commercial banks (Joksimović et al., 2020).

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The Ministry of Agriculture, Forestry and Water Management (MAFW) of the Republic of Serbia since 2004. subsidizes agricultural loans approved by commercial banks with a favorable interest rate (Popović et al., 2018). The mentioned authors point out the essential fact that in the previous period, agricultural loans by assigned with a high-interest rate and a short repayment period without the approval of a grace period. At the same time, they state that the situation is different today.

On the one hand, the low demand for agricultural loans is a consequence of the high representation of predominantly elderly households in Serbia, and the age limit of the loan applicant is the first condition encountered. On the one hand, the low demand for agricultural loans is a consequence of the high representation of predominantly elderly households in Serbia, and the age limit of the loan applicant is the first condition encountered. Besides, problems are made by the level of their education, knowledge, and interest in credit borrowing. On the other hand, commercial banks are not ready to significantly support the development of agriculture due to their technical and technological backwardness (Lukić and Cvetković, 2012).

Although there is a great need for agricultural loans, agricultural producers are not ready to take credit, because they are afraid of whether they will be able to repay the debt on time (Tasić, 2017).

## **Methodology**

The research in the paper consists of two parts. *In the first part of the analysis*, which considers changes in the total claims of banks based on agricultural loans, the mains source of data is the electronic database of the National Bank of Serbia (NBS). Based on these values, changes in the average and average annual interest rates of banks' receivables from public companies, commercial companies, and registered agricultural producers for 2010-2020. by calculated. *The second part of the analysis* considered changes in the structure of paid-out agricultural loans in the total values of realized loans from 2017 to 2020. In addition, were considered, and the business results of the operations of the following banks by given: Komercijalna bank, Banca Intesa, and ProCredit bank. For this part of the research, the data sources are the annual reports on business for the analyzed years. The data were processed using the methods of descriptive statistics. Based on the obtained results, adequate and appropriate comments and conclusions by given.

## Claims of commercial banks in the sector of agriculture, forestry, and fisheries of the Republic of Serbia

Commercial banks have assumed an important role when it comes down to it to financing agricultural production through lending. Their role is reflected in the financing of rural development, cross-the approval of loans with favorable interest rates, reduction of loan processing costs, long-term repayment terms, and a grace period.

In the continuation of the work, overviews of banks' receivables for different purposes by giving.

**Table 1.** *The structure of banks' receivables from public companies and companies in domestic currency in the agriculture, forestry, and fishing sector from 2010 to 2020 (in %).*

Year	Participation (in %)	
	Public companies	Average for the period
2010	0.4	5.9
2011	0.3	5.9
2012	0.3	5.7
2013	0.3	5.5
2014	2.3	6.9
2015	2.3	7.4
2016	2.3	7.4
2017	2.8	7.6
2018	0.4	7.9
2019	0.5	8.0
2020	0.7	7.5
<i>Average for the period 2010-2020. (in %)</i>	<i>1.2</i>	<i>6.9</i>
<i>Average annual rate of change (in %)</i>	<i>15.6</i>	<i>5.4</i>

Source: National Bank of Serbia, Bank dinar and FX-indexed claims on corporates by sector ([https://nbs.rs/en/drugi-nivo-navigacije/statistika/detaljni\\_potrazivanje/index.html#](https://nbs.rs/en/drugi-nivo-navigacije/statistika/detaljni_potrazivanje/index.html#))

Table 1 shows that the average annual participation of banks' claims in domestic currency in the agriculture, forestry, and fishing sector from public companies was 1.2%, and 6.9% from business companies. In the observed period, the bank's total receivables in domestic currency from public companies increased by 15.6% on average per year and from commercial companies by 5.4%.

The following is a tabular overview of the structure of bank claims in domestic currency from registered agricultural producers by purpose (in %) from 2010 to 2020. (Table 2).

**Table 2.** *Structure of bank claims in local currency from registered agricultural producers by purpose from 2010 to 2020 (in %)*

Year	Participation (in %)					
	By transaction accounts	Gashi <sup>1</sup>	For liquidity and working capital	Investment	For export	The others
2010	0.0	0.0	20.1	63.5	0.0	16.3
2011	0.0	0.0	26.0	59.9	0.0	14.1
2012	0.0	0.0	21.1	64.9	0.0	13.9
2013	0.0	0.0	20.9	68.0	0.0	11.1
2014	0.2	0.4	23.2	67.6	0.0	8.5
2015	0.2	0.2	22.0	68.8	0.0	8.8
2016	0.2	0.2	23.5	68.1	0.0	7.9
2017	0.1	0.2	24.7	68.5	0.0	6.4
2018	0.1	0.3	25.4	69.1	0.0	5.2
2019	0.1	0.2	24.4	70.7	0.0	4.6
2020	0.1	0.3	31.3	64.9	0.0	3.4
<i>Average for the period 2010-2020. (in %)</i>	<i>0.1</i>	<i>0.2</i>	<i>23.9</i>	<i>66.7</i>	<i>0.0</i>	<i>9.1</i>
<i>Average annual rate of change (in %)</i>	<i>14.8</i>	<i>5.4</i>	<i>21.8</i>	<i>12.9</i>	<i>0.0</i>	<i>-7.9</i>

Source: National Bank of Serbia, Bank claims on registered agricultural producers by purpose ([https://nbs.rs/en/drugi-nivo-navigacije/statistika/detaljni\\_potrazivanja/index.html#](https://nbs.rs/en/drugi-nivo-navigacije/statistika/detaljni_potrazivanja/index.html#))

<sup>1</sup> Since December 2014, the “Cash loans” category has been displayed separately and excluded from the “Other loans” category.

Note: Only credit claims were analyzed (without other claims).

In April 2019, the data for the period December 2016 - February 2019 by revised to the reclassification of loans at one bank was a decrease in the balance of loans for liquidity and working capital and other loans and an increase in the investment loans balance (NBS, Bank Claims on Registered Agricultural Producers by Purpose). Table 2 shows that the average annual share of bank claims from registered agricultural producers is the highest for investment loans at 66.7%,

followed by liquidity and working capital at 23.9%, and the lowest for claims on transaction accounts at 0.1%. In the same period, the average annual growth rate was the highest in loans for liquidity and working capital with 21.8% and based on transaction accounts at 14.8%. However, other receivables from agricultural producers decreased by an average of 7.9% per year. In this period, no claims of banks based on loans for export by recorded.

We conclude that there is an interest of agricultural producers in agro loans, while the increase in realized loans is gradual, slow, and insufficient to achieve results in the long term.

### **Contributions of commercial banks to rural development from 2017 to 2020**

The activities of *Commercial bank* carries out through a business network of business centers. At the end of 2020, NLB bank from the Republic of Slovenia took over the acquisition of the commercial bank. (Commercial Bank, Annual report on operations of Commercial bank for 2020).

Indicators of credit activity and market share of the banks in the agricultural sector from 2017 to 2020 are given below (Annual reports on the Commercial bank's operations for the analyzed years):

- *During 2017* the bank operated in a favorable macroeconomic environment in agriculture. Although they tried to shorten the time for the population sector to decide on a credit request, agricultural producers by not included in this decision, which is why a long-term period is needed for the bank to decide. This year, the bank increased approved agricultural loans by 26% compared to the previous year, and in the structures of total approved loans, agricultural loans accounted for 14%. Action and fair loans, as well as approved loans in cooperation with the Ministry of Agriculture, Forestry, and Water Management of the Republic of Serbia, contributed to this success.
- *During 2018* Realized loans to the agricultural sector increased by 13% compared to 2017, while in the totals structure of approved loans, 13% of the participation by made up of loans paid to farmers. This result by achieved thanks to an agreement with the Ministry of Education and Culture, which together participated in the financing of projects from IPARD funds. The bank can boast of the fact that in 2018. made an early repayment of the credit line with KfW bank (German development bank).

- *In 2019* the bank continued to grow its market share in the structure of approved loans, so realized agricultural loans accounted for 14%, and the placement of loans increased by 6% compared to the previous year. The bank conducted cooperation with the Ministry of Internal Affairs and Communications, machinery dealers, and local governments. This year the bank enabled the purchase of land through an agricultural loan with a repayment term of up to 15 years.
- *During 2020* the bank operated alongside the COVID-19 virus pandemic. During this period, the bank managed to increase the placement of loans because it used the lending programs of the Guarantee Scheme of the Government of the Republic of Serbia and subsidized agricultural loans from the Ministry of Agriculture and Forestry. At the end of the analyzed year, the bank's participation in the structure of approved loans amounted to 37% of the total number of approved loans and 24% of approved loans in the agricultural sector.

Below is a tabular presentation (table 3) of the basic indicators of the market share of Commercial banks' agricultural loans from 2017 to 2020 with the balance on 31.12. (in %).

**Table 3.** *Indicators of implemented agricultural loans of Commercial banks' from 2017 to 2020 on 31.12. (in %)*

<b>Indicators</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>
The share of the net balance of placements of agricultural loans in total placements	8.7	9	9	11
Share of approved agricultural loans in total loans	14	13	14	37

*Source:* Commercial banks, Annual reports on operations of Commercial bank for the analyzed years.

The bank adopts a development plan on an annual level to preserve its leadership position, and the following have by selecting:

- the creation of credit lines for the purchase of agricultural equipment;
- cooperation with state bodies and programs to further increase the placement of agricultural loans;
- promoting the placement of agricultural loans at relevant fairs and events throughout Serbia.

**Banca Intesa** has been operating in the agricultural sector since 2008. All these years, she tried to improve the quality of services to retain existing and attract new clients.

In the continuation of the work, indicators of credit activity and market share of the bank in the agricultural sector from 2017 to 2020 by giving. (Annual reports of the bank for the analyzed years):

- *During 2017* the bank increased the market share of agricultural loans by 3.5 p.p. and placement by 47%. This year, the loan portfolio in the sector grew by 53%. The bank also stands out for its cooperation with the German Development Bank and the Ministry of Finance, which is why it participated with 18% in the total amount and 28% in the total number of approved agricultural loans. The bank continued cooperation with the APV Guarantee Fund for financing loans. This year, loans accounted for 5% of the total loan portfolio.
- *In 2018* the bank founded the Intesa Farmer Center, which started operating at the end of 2018. to justify the role of the leading bank in the market of loans. One 2018 bank increased the market share of these loans by 18% and the number of clients by 8% compared to the previous year. The bank continued its cooperation with KfW Bank and the Ministry of Finance, which helped it achieve 20% in the total amount and 30% in the total number of approved loans. As a result of the cooperation with the Guarantee Fund, APV bank achieved a 26% increase in total disbursed loans.
- *In 2019* the bank managed to maintain its leading position in the market with a market share of 12% in the agricultural sector, while the credit portfolio in the agricultural sector decreased by 7%. Cooperation with the MAFW bank contributed to achieving a share of 17% in the total amount of subsidized loans and 23% in the total number of approved loans. Looking at the loan portfolio by activity, agriculture accounted for only 7%.
- *In 2020* the bank achieved a market share of 12% in business with agriculture, and the loan portfolio in agriculture was 18%. Although exposed to the effects of the COVID-19 pandemic, this year bank managed to introduce a new loan product EaSI (Farmer Invest loan). These are investment loans that should improve the structure of the agricultural portfolio. The bank continued its cooperation with the Ministry of Finance, thanks by participated with 19% of total disbursed loans and 23% of total approved loans. The bank also

paid out 58 agro-protect loans, which include an insurance policy for crops exposed to bad weather conditions. This year, the participation of the bank's loan products in agriculture was 5% of the bank's total loan portfolio

In the coming years, the bank plans to cooperate with sellers of agricultural machinery to participate in fairs and education. It continues to organize the "Intesa Farmer" contest, where it selects the most successful agricultural producers in the categories of arable farming, vegetable farming, fruit growing, and animal husbandry.

Below is a table overview of the Bank's loan portfolio in the agricultural sector from 2017 to 2020 (Table 4).

**Table 4.** *The share of Bank Intesa's loan portfolio in agriculture in the total loan portfolio from 2017 to 2020. (in %).*

Indicator	2017	2018	2019	2020
The Bank's loan portfolio in agriculture	5	12	7	5

Source: Bank Intesa, Annual reports for the analyzed years.

After a long period of economic crisis, the bank's most important goals were to preserve its leading market position and increase lending activity and the number of loan clients. The bank plans to increase the offer of agricultural loans and credit products in the coming years.

**ProCredit Group** has a developed loan offer for companies, agricultural holdings, and citizens. The bank supports the so-called green financing, which means providing support for the development of energy efficiency projects, renewable energy sources, and other similar measures (Consolidated financial report with auditor's report for 2020).

The bank has adopted a strict credit policy whereby it lends to legal entities, entrepreneurs, registered agricultural enterprises, and other natural persons on the territory of Serbia. The credit risk committee assesses the branches of the economy or areas that may be risky for the credit portfolio and determines the limits of permitted credit borrowing.

The following table shows the structure bank's loan portfolio from activity. Based on the data shown in table 5, we can see that one-third of the bank's loan portfolio. However, the share of these loans in the bank's total portfolio is decreasing, so in 2020 it was 4.5 p.p. fewer agricultural loans than in 2017.



**Table 5.** Structure of ProCredit Bank's loan portfolio by activity as of December 31. from 2017 to 2020 (in %)

Activity	2017	2018	2019	2020
Trade	24,8	22,97	20,2	21,5
Tourism	1,68	2,01	3,3	3,2
Transportation	5,15	5,1	4,7	4,1
Other services	4,03	4,91	4,0	5,0
Industry and other production	21,24	25,2	25,3	26,5
<b>Agriculture</b>	<b>32,74</b>	<b>30,07</b>	<b>29,4</b>	<b>28,2</b>
Construction	2,94	4,45	8,3	5,7
Other	7,41	5,29	0,2	1,1
Individuals	0,01	0,01	4,8	4,6

Source: ProCredit Bank, Consolidated financial statements with the auditor's report for the analyzed years.

After agricultural loans, the most represented are loans intended for the industry share of 24.6% on average per year, followed by the trade sector share of 22.4% on average per year. The remaining activities (tourism, transport, construction, other services, and loans to individuals) in the total loan portfolio achieved 23.7% at the end of 2020.

Below is a presentation of claims from farmers based on loans (table 6).

**Table 6.** Structure of ProCredit Bank's receivables from farmers based on loans as of December 31. from 2017 to 2020 (in %)

Category	2017	2018	2019	2020
Share of agro loans in the bank's total receivables (in %)	22.1	18.6	18.0	17.1

Source: ProCredit Bank, Consolidated financial statements with auditor's report for the analyzed years.

The table data show that in the four years the Bank's claim on loans from farmers has decreased significantly, so in 2020 this claim is 5 p.p. less compared to 2017, and the average annual participation was 19%. However, if we analyze the value of claims based on agro-loans, we see that they grow more slowly than total claims (claims based on agro-loans in the observed period are higher by 15.3% and total claims by 49.5%). From the above. it can be concluded that the participation of other clients in total loan claims has increased.

In the coming years, the bank plans to grow its loan portfolio with support for energy solutions. It comes to natural persons, the bank to be more involved in determining the conditions for approving investment and housing loans (Consolidated financial report with auditor's report for 2020).

### **Conclusion**

The line ministry partly assumed the role of the financier of agrarians by participating in subsidizing part of the interest rate on loans granted by commercial banks to registered agricultural producers. Considering that it did not give adequate results. There is a need to form one agricultural bank that would deal exclusively with the development sector and whose credit portfolio would be determined only for agricultural producers.

The current conditions surrounding the realization of agricultural loans approved by commercial banks lead us to the following conclusions:

- *Lending by not adapted to the seasonal nature of production;*
- *Strict requirements for securing loans;*
- *High costs of loan insurance.*

These are the reasons why there are no agricultural loans in the loan portfolio of banks. From the point of view of farmers, their non-involvement in the implementation of loans is a consequence of distrust in the banking sector due to the uncertainty of the placement of agricultural products.

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