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## Quantification of the effect of subsidies on the production performance of the Slovak agriculture

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### Abstract

Almost every country was heading a large portion of their income on agricultural subsidies. The agricultural subsidies are an essential aspect of agriculture and play an important role in international trade. A policy to support farming incomes in the European Union is called the Common Agricultural Policy. It is the complicated policy that includes many tools. An impact of policy of EU agricultural support on the economic performance of agricultural enterprises is therefore an interesting question, especially for policy makers. The agriculture in Slovakia has undergone significant changes, not only in terms of its position in the national economy, but also in terms of its importance at the regional level. There are still persistent differences between better and worse natural conditions as well as economic and social differences with a possible impact on the level of gross agricultural production in different regions of Slovakia. The aim of this paper is to quantify the dependence of agricultural production from the subsidies granted in the context of regions under the NUTS III classification. For the calculation, we used Pearson correlation coefficient that determines the direction and rate of statistical dependence force of two numeric variables. The analysis confirmed our assumption, the result of which is that between amount of gross agricultural production and the volume of subsidies granted is a strong correlation.

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## 1. Introduction

The current trend towards trade liberalization and growth of the global nature of the world economy triggered a series of discussions on whether globalization is a driving force for growth and development or a curse for the society. The agricultural sector is a central part of this issue because the provision of agricultural subsidies is without question the focal point of last trade negotiations. Matter of fact, most countries use some form of subsidies in order to protect its agriculture (Koo, Won and Kennedy 2006).

Almost every country was heading a large portion of their income on agricultural subsidies. The agricultural subsidies are an essential aspect of agriculture and play an important role in international trade. They are considered the most effective mechanism for accelerating the growth of the agricultural sector. They are paid to farmers and agribusiness operators to supplement their income in order to management of offer of agricultural commodities or influence of the cost and supply of these commodities in the international markets (Swain 2009).

The main argument for the granting of these subsidies is the fact that the domestic farmers were not able to compete with foreign imports without mentioned financial support of state. The removal of subsidies would contribute to increased the income disparities between rural and urban areas, and that would lead to exit of domestic farmers from the industry. The loss of domestic agricultural sector is considered to be undesirable fact for various reasons, including the increase in unemployment and the loss of traditional way of life. In addition, a country that is not self-sufficient in food production can be more vulnerable to commercial pressure and the global food crisis (Henningsen et al., 2009).

The term subsidy covers a wide range of economic interventions of the government and policies which are implemented. This huge segment affecting the agricultural sector is necessary to define, describe or classify so that we can might it to best analyze and understand.

At present, there is no uniform definition of subsidy. For the initial definition can be regarded as the definition used in OECD publications, which defines a subsidy as a "result of government activities that are beneficial to the consumer or the manufacturer in order to supplement their income or reduce costs" (OECD 2005, p. 16). This definition thus includes activities such as direct payments from the state budget, tax breaks and rebates or subsidies arising from the legal preferences beneficial for certain market participants (eg. the preferential access to the market, etc.).

A policy to support farming incomes in the European Union is called the Common Agricultural Policy (CAP). It is a complicated policy that includes many tools. In the last two decades, the CAP has undergone three major reforms. In 1992 MacSharry reform introduced a shift from price support to direct payments based on cultivated area and the quantity of farmed animals and also contributed to the reduction of intervention prices (Zhu et al. 2012; Folmer et al. 1995; Ingersent et al. 1998). The second reform entitled Agenda 2000 supported implemented direct payments. Intervention prices also continued to decline and these reductions were offset by the introduction of an annual direct payments (Zhu et al. 2012; Benjamin et al., 1999). Fischler reform, which was implemented in 2003 further weakened the link between subsidies and production by introducing the single payment scheme, which separates the direct payments from production (Swinbank and Daugbjerg, 2006). CAP reforms have undergone a long process from price support, direct subsidies linked to production to decoupled payments. An impact of policy of EU agricultural support on the economic performance of agricultural enterprises is therefore an interesting question, especially for policy makers.

The basic types of support in the agricultural sector include direct support and agri-environmental support. The list of current direct support in Slovakia is recorded by Agricultural Payment Agency. Slovak farmers can annually apply for this direct support, whose conditions for the provision re pursuant to the EU and SR legislation. It is the following direct support:

- from the European Agricultural Guarantee Fund (EAGF)
  - Single Area Payment Scheme (SAPS)
  - payment to dairy cow,
  - separate sugar payment,
  - separate fruits and vegetables separate payment;
- from the European Agricultural Fund for Rural Development (EAFRD)
  - support in less favored areas (LFA),

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