Economic and financial position of agricultural enterprises in the period before the accession to the European Union

Ekonomicko-finančná pozícia poľnohospodárskych podnikov v období pred vstupom do Európskej únie

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Abstract: In the year before the accession to the European Union, the Slovak agricultural sector reported a loss of SKK 2.4 billion and following a profitable year, the earnings were reduced by SKK 2.8 billion. The situation was caused by a number of reasons, namely reduced sales of agricultural products, damage resulting from adverse weather effects (cold weather, hail, drought and swine fever), as well as widening of the price gap compared to the year before (increasing input prices in agriculture and decreasing purchase prices of agricultural products, especially in livestock production). Legal entities and natural persons experienced mixed business success. While 51% of legal entities made profit, the figure rose to 76% in the group of natural persons. Both the agricultural cooperatives and trading companies performed with a loss. The loss per hectare of agricultural land (a.l.) was substantially lower in the case of business companies. Natural persons - private farmers were profitable over the period. The gap between the profitable and loss-making enterprises has widened. Some 60% of profitable enterprises owned by legal entities made only a small profit below SKK 0.5 million. The loss-making performance was typical for more productive areas of Slovakia. This was related to stronger effects of adverse climate in 2003.

Key words: earnings, income, costs, added value, solvency, investments

Abstrakt: Slovenské poľnohospodárstvo dosiahlo v poslednom roku pred vstupom do Európskej únie stratu 2,4 mld. Sk a po predchádzajúcom ziskovom roku zhoršilo výsledok hospodárenia o 2,8 mld. Sk. Pričinili sa k tomu viaceré vplyvy najmä pokles množstva predaja poľnohospodárskych výrobkov, v dôsledku škôd spôsobených nepriaznivým vplyvom počasia (vyzimovanie, ľadovec, sucho) a morom ošípaných ako aj medziročné roztvorenie cenových nožníc (nárast cien vstupov do poľnohospodárstva a pokles nákupných cien poľnohospodárskych výrobkov, predovšetkým živočíšnej výroby). Vývoj úspešnosti podnikania bol odlišný u právnických a fyzických osôb, kým právnických osôb bolo ziskových 51 %, fyzických 76 %. Poľnohospodárske družstvá aj obchodné spoločnosti dosiahli súhrnne stratu, ktorá bola v prepočte na ha p. p. podstatne nižšia v obchodných spoločnostiach. Fyzické osoby -samostatne hospodáriaci roľníci boli zisková. Prehĺbili sa diferencie medzi ziskovými a stratovými skupinami podnikov. Takmer 60 % ziskových podnikov právnických osôb dosiahlo zisk len do 0,5 mil. Sk. Stratovosť postihla viac produkčné oblasti Slovenska, čo súviselo s väčším dopadom následkov klimaticky nepriaznivého vývoja v roku 2003.

Kľúčové slová: hospodársky výsledok, výnosy, náklady, pridaná hodnota, platobná schopnosť, investície

INTRODUCTION

Despite a number of positive measures adopted by the MA SR in an effort to meet the EU requirements and to stabilise economic situation of agricultural enterprises, the agriculture in Slovakia has reported a loss in the year before the accession to the EU. The economic and financial situation could have become much worse, if it were not for the increased role of subsidies in providing better access to capital by subsidizing interest rates on credits of commercial banks; measures beyond the normal scope of insurance policies to tackle production risks in agriculture; and lastly, if it were not for the diesel tax that was kept on a lower level. The adverse effects of business performance were reflected in negative earnings, decrease in the number of profitable enterprises, poor generation of added value, slower pace of investments and the resulting depreciation of fixed assets, higher demand for stock and continuing insolvency of varied size in the groups of enterprises by organisation structure. Economical results on agriculture was evaluated by Chrastinová (2003) and Ševčíková (2004).

MATERIAL AND METHODS

The economic and financial situation of agricultural enterprises presented in this article was analysed on the

basis of the data on agricultural enterprises provided by the MA SR in the information sheets of the MA SR, stored on CD of the MA SR with the RIAFE. The set of enterprises subjected to analysis consists of 2 531 legal entities and natural persons, with less than 19 and also more than 20 employees. The Information Sheets contain data on agricultural enterprises which use 85.5% of agricultural land in Slovakia. The set of enterprises is not an exhaustive one, therefore the results were converted to figures per 1 hectare of agricultural land and became the basis for the analysis of the year-on-year development trends of the economic and financial indicators. With regard to the diverse nature of bookkeeping systems in the groups of enterprises, the analysis had focused on the group of legal entities and natural persons and the global data for each group, while the size of enterprises, success groups and regional aspects were also taken into account.

The analysis of performance results in the group of natural persons in 2003 was prepared on the basis of data provided by 1 194 private farmers (PFs) who use 7.7% of agricultural land (170 000 hectares).

RESULTS AND DISCUSSION

The overall economic results of enterprises in primary agricultural production show that in 2003, the sector of agriculture posted a loss of SKK –2 376 million. Compared to the profitable year of 2002, the earnings dropped down by SKK –2 850 million (Table 1). The year-on-year development of earnings was different in the group of legal entities and natural persons. Legal entities, that used 79.7% of agricultural land and provide for 94.7% of income, produced a loss per enterprise in the amount of SKK –1 862 000 and 51% of enterprises finished the year with a profit.

Compared to the year before, natural persons (PFs), who used 7.7% of agricultural land, were able to achieve a slight increase in earnings to SKK 95 000 per enterprise (including personal income of the farmer). However, after the deduction of farmer's personal income, this form of business would also end up with a loss. An objective comparison of performance by the groups of legal entities and natural persons, in terms of resulting effects, will only be possible after the introduction of the common bookkeeping system, which will be required by the bookkeeping standards of the Common Agricultural Policy in the EU (EU CAP).

Business results of legal entities

In average, legal entities posted a loss of SKK –1 411 per hectare of agricultural land; with substantial contribution of losses generated by operation and financial activities. The loss was partially offset by profit from extraordinary activities. Overall, the earnings were affected by varied development of costs and income, i.e. decrease in income (0.5%) and increase in costs (4.0%). Both major groups of enterprises reported a loss, although the loss was smaller for business companies (SKK –59 per hectare of a.l.), compared to agricultural cooperatives (SKK –2 441 per hectare of a.l.). 51% of legal agricultural entities posted a profit, with higher proportion of profitable entities in the sector of business companies (65%) than among agricultural cooperatives (35%). Compared to the group of business companies, worse results of agricultural cooperatives were caused by the higher employment rate per 100 hectares of a.l. and, consequently, by increased salary costs in relation to the production and lower usability of their assets. The slower pace of restructuring in production was also a contributing factor.

Overall, the income had been dropping (0.5% growth) due to income reduction in the group of agricultural cooperatives (2.3%) and increase in the group of business companies (4.9%). The income development was associated with changing structure of income components, especially the decrease in operation income (2.2%) caused by reduced sales of own products and services (3.2%) combined with lower purchase prices (4.8%), especially in livestock production (6.5%). The decrease in crop production due to adverse climatic effects was reflected in lower sales. The enterprises used their reserves and addressed their financial situation by selling their stock. The negative development in income was partially offset by increased subsidies (2.9%) as well as by the increased sales of fixed assets (20.7%).

Table 1. Basic economic indicators of agricultural enterprises in primary production

Indicator	Before-tax earnings (SKK million)			Income (SKK million)			Share of profitable enterprises (%)		
	2002	2003	difference	2002	2003	index	2002	2003	difference
Legal entities	363	–2 489	2 852	62 458	62 562	100.2	73.9	51.3	–22.6
of that: 0–19 employees	37	–147	184	5 010	6 716	134.1	75.7	61.0	–14.7
20 and more employees	326	–2 342	2 668	57 447	55 846	97.2	73.1	45.2	–27.9
Natural persons	111	113	–2	3 519	3 519	100.0	80.5	75.8	–32.6
Agriculture, total	474	–2 376	–2 850	65 977	66 081	100.2	76.9	62.9	–14.0

Source: Information sheets, CD MoA, RIAFE

The structure of income in the group of agricultural cooperatives was similar to that of the business companies. The only difference was the increasing share of revenue from commercial activities (4%) in the group of business companies that provided for 14% of the overall income. The share of financial and extraordinary income in the overall income was only negligible. The financial income increased by 43.7%, due to increase in earnings on securities and shares, especially in the group of business companies (90.4%). The reduction in sales of own products and services (3.2%) were affected by the decrease in sales of agricultural products (7.6%), against a backdrop of the decline in sales of animal (9.8%) and plant (4.4%) products.

Total costs recorded year-on-year growth (4.0%) with dominant effect of growth in operation costs (3.7%), especially depreciation (15.6%) and other business costs, such as fines, penalties, interests on overdue payments, deficits and damages, partly associated with the shortage of cash to cover the running costs. The increase in depreciation provided for 9.5% of the total costs and this was also one of the reasons for accumulation of resources used in expansion of assets. The increase in depreciation was also caused by administrative change in depreciation period, from 40 to 30 years. The continuing reduction in the number of workers resulted in the drop of staff costs, as well as in the reduced share of those costs on the total costs. Compared to the year before, the groups of enterprises in breakdown by their corporate structure experienced a mixed development of total costs, i.e. increase of costs in the group of business companies (7.3%) and stagnant development in the group of agricultural cooperatives.

Financial costs increased by 11.7% due to growth in cost interest (9.6%), especially in the group of business companies, which demonstrates a better availability to loans for that group.

The extraordinary costs have experienced the fastest increase (23.8%), especially in the group of business companies (44.5%). The decisive portion in the structure of costs was attributed to operating costs (96.7%) with largest part of production demand (52.2%), mainly the consumption of material and energy (40.8%). The costs were mostly covered by sales (Figure 1) of own products and services (62.6%), operating subsidies (9.3%) and to a lesser extent by the sales of fixed assets (5.4%).

Added value (book value) dropped down by 25.7 % in both major groups of enterprises. This was caused by a faster decline in production (8.8%) when compared to the production demand (Figure 2). The cost intensity of added value thus substantially increased (32.9%) especially in the group of business companies, where it was much higher than in the group of agricultural cooperatives. This was affected by excessive production demand in relation to the production output and by lower added value in the group of business companies when compared to agricultural cooperatives.

While labour productivity increased in relation to income (9.6%, compared to the year before), it has dropped down in relation to added value (by 17.9%). The increase of labour productivity in relation to income was caused by the continuing decline of workers (by 6.8%) in both

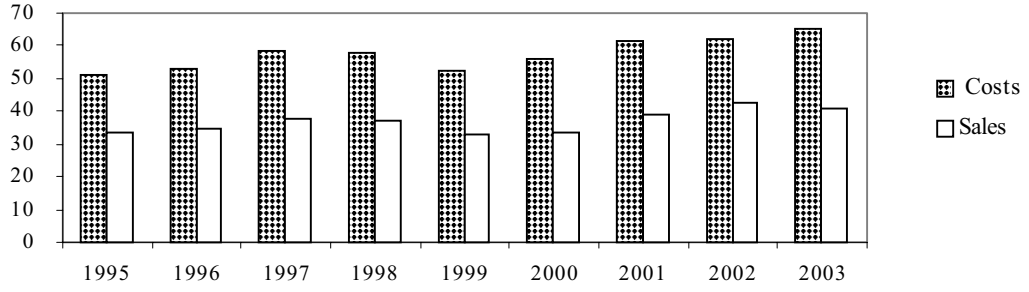

Figure 1. Payment of costs by sales, in SKK billion

Source: Information sheets, CD MoA, RIAFE

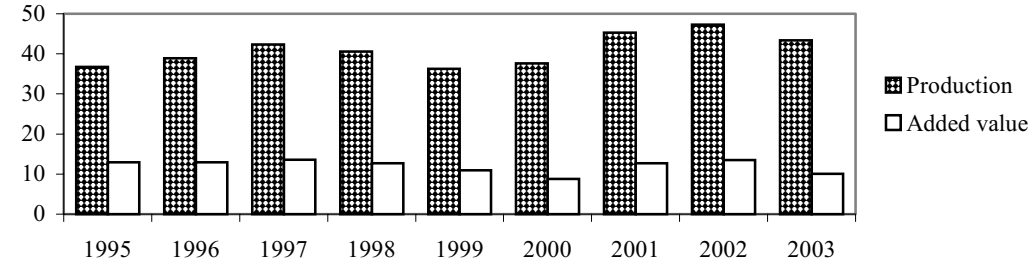

Figure 2. Development of production and added value, in SKK billion

Source: Information sheets, CD MoA, RIAFE

groups of enterprises, whereas the decline in number of employees was faster than the decline in income. Labour productivity in relation to added value has dropped down due to faster decline in added value (25.7%) compared to decline in income (0.5%). The income per worker amounted to SKK 959 000 and SKK 156 000 of added value; with higher labour productivity (expressed in terms of income and added value per worker) in business companies compared to agricultural cooperatives. This was caused by lower number of employees in the trading companies. The decline of workers reflected not only in the continuing reduction of the salary/total costs ratio but also in the decrease in production costs (4%).

Total assets experienced a moderate decline (2.3%), and a different development trend in each group of enterprises. While the business companies enjoyed growth of total assets (3.4%), as well as their components, especially fixed assets; the agricultural cooperatives experienced decline in total assets (4.4%). The decline in assets was caused mainly by the decline in tangible and intangible assets (2.4%), mainly buildings (3.8%), equipment and machinery (1.1%). The most important component of assets, namely fixed assets, dropped down by 2.4% due to the slower pace of replacement compared to the depreciation. The lands experienced the highest increase (17.6%) of all asset components, with faster increase in the group of business companies (27.5%) compared to agricultural cooperatives (3.3%).

The decline in current assets (1.8%) was mainly caused by reduction in stock (5.9%) and long-term payables (10.6%), because short-term payables and current liquid assets have increased (6.8% and 1.5%, respectively).

The usability of assets in relation to production amounted to 89.0%, mainly in the group of business companies, where the usability was higher (118.7%) than in the group of agricultural cooperatives (74.2%). This confirms the difference in flexibility when adjusting the extent of assets to the volume of production. The agricultural cooperatives experienced higher property burden (13.1%) which also affected their income and profitability of the total capital.

The decline in total capital (2.3%) as the means to protect the assets was associated with the decline in equity capital (5.4%) and growth of foreign capital (4.5%). Both groups of enterprises experienced a different structure of these capital components. While the agricultural cooperatives had a prevailing portion of equity capital (71.1%) with substantial portion of capital funds (54.3%), the business companies used foreign capital (54.5%) as the decisive source to protect their assets – foreign capital was used to cover bank loans, as well as the liabilities. The higher share of capital funds in the equity of agricultural cooperatives in comparison with the business companies was attributed to the aggregation of earnings from the previous years. The increase in capital funds could be explained by the increase in new capital monetary investments and investments in kind, as well as by the settlement of reserves and adjusting entries for financial income. These trends surfaced mainly in profitable enterprises with better results in the previous years.

The volume of foreign capital had increased (4.5%), while it experienced mixed development of its internal components, resulting in the structural changes of the foreign capital. The short-term payables have increased (13.1%) along with the moderate rise of bank loans (1.2%), while the long-term payables experienced a substantial decline (9.6%). The enterprises a saw positive development of loans (Figure 3) for the third consecutive year, although both groups of companies experienced a different development in loans – increase in

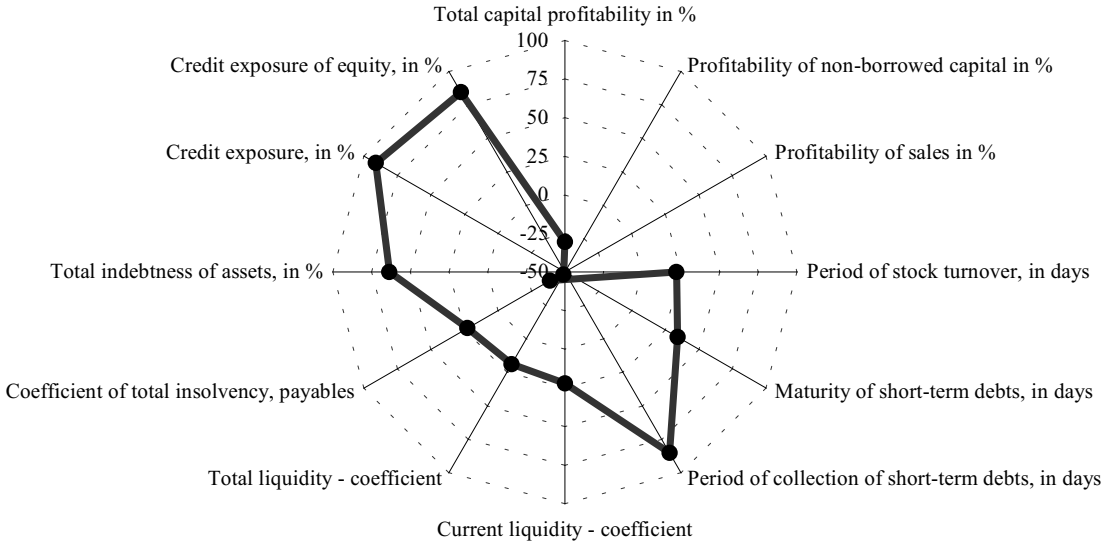

Figure 3. Overview of financial indicators in 2003

Source: MoA Information sheets, CD released by RIAFE

loans provided to business companies (9.4%) and a substantial decline in the group of agricultural cooperatives (13.6%).

The adverse financial situation in most agricultural enterprises reflected in the increasing insolvency (4%), caused by the volume of liabilities which was 2.3 times higher, and also by the year-on-year growth in liabilities (6.4%) which was faster than the increase in payables. One of the reasons of high insolvency was the liabilities in the old package of loans extended to agricultural enterprises and now allocated to the Konsolidačná a.s. company, which provides management and trading in those debts. Almost 92% of enterprises were insolvent; of that, 63.1% found themselves in primary insolvency and only 7.6% of enterprises had a balanced structure of payments.

The procured investments experienced year-on-year decline (14.6%) in both groups of enterprises, with a substantial decline in the group of agricultural cooperatives (29.8%) and stagnant development in the group of business companies (–0.9%). These trends reflected the low annual renewal of remaining value of assets (16.3%) and even though the remaining value saw a moderate decline year-on-year, it was higher in the group of business companies (26.6%) than in the group of agricultural cooperatives (10.9%). This was caused by the volume of available resources for renewal of fixed assets, as well as by the faster renewal of smaller volume of fixed assets in business companies. In contrast to the previous year, investments rose only for lands (22.0%) and primary herd (3.8%); although the bulk of investments was targeted into machinery and equipment (36.1%) and into the primary herd (27.3%).

In terms of funding for the procured investments, the key position was held by own resources (73.2%) which dropped down by 11.9%, due to income situation. Other sources of funding, such as loans, have also dropped down (14.2%), as well as direct subsidies (5.6%) and foreign sources (1.1%).

The continuing downturn in investments resulted in the increased depreciation of assets in both groups of enterprises and prompted the need for renewal. A major area of concern is the depreciation of machinery and equipment that amounts to almost 68%.

The loss of agricultural enterprises in 2003 reflected in every profitability indicator, with a worse situation in the group of agricultural cooperatives. This could be attributed to higher losses which they experienced. Also, compared to the year before, the period of payment of liabilities and collection of payables has increased; especially due to the slow cash-flow caused by decline in cash from sales, resulting in the decrease of total and current liquidity. The lack of financial resources was addressed by bridge loans to finance the operation. This in turn caused the increase in total and credit exposure, especially in the group of business companies. In agricultural cooperatives the credit exposure declined due to decrease in volume of loans which was probably caused by their poor credibility in the eyes of commercial banks. The year-on-year comparison shows an increased share (from 5.7 to 9.8%) of indebted enterprises in the group of legal entities, where the foreign capital exceeded the value of their total assets. Almost 87% of those enterprises were loss-making business companies, just as in previous years.

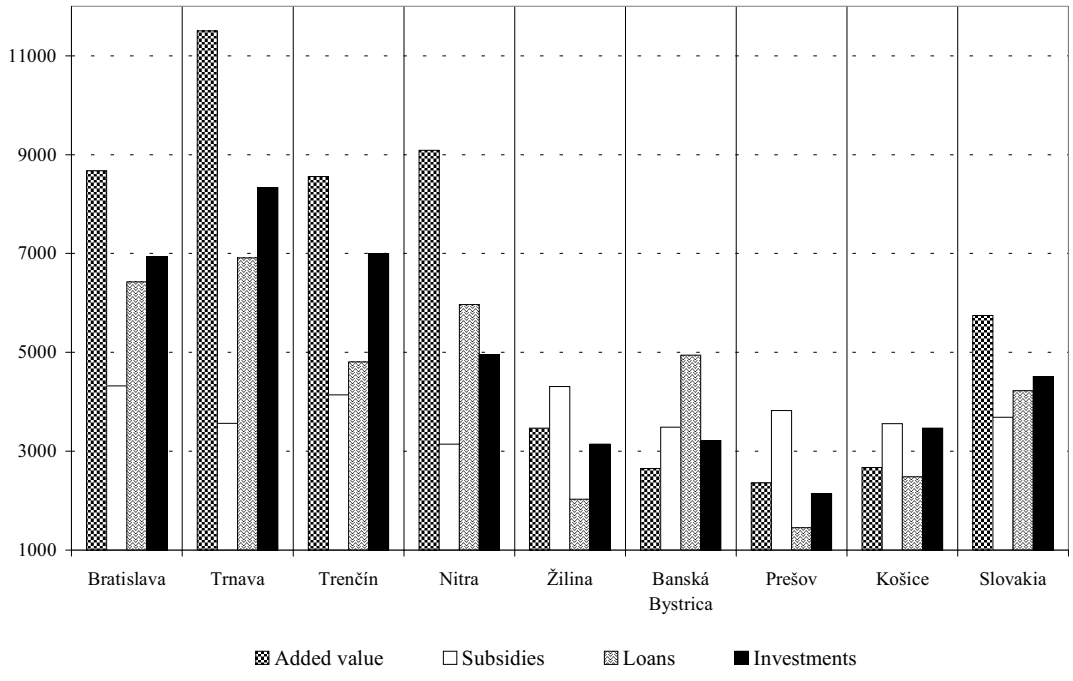

Figure 4. Average economic results in agricultural production, in breakdown by regions, in 2003, in SKK per hectare of a.l.

Performance results by regions

From the regional point of view, all the regions posted worse results than in the year before and made a loss. The highest loss per hectare of a.l. was recorded in Trenčín, Banská Bystrica, Nitra and Trnava regions. These regions also mostly contributed to the poor results, with substantial share of Trnava region and loss-making enterprises. In other regions, the loss per hectare of a.l. was much smaller, with prevailing number of profitable enterprises.

The adverse development is also illustrated by year-on-year decline in production per hectare of a.l. in each region, with the biggest decline in Nitra region (SKK 2 770) and smallest decline in Košice region (SKK 509), while the regions of Western Slovakia enjoyed the level of production which was twice as high as in other regions. A similar development was achieved in the labour productivity per added value and per worker, with the biggest decline in Košice region and smallest decline in Trnava region which also experienced the highest labour productivity (Figure 4).

The subsidies per 1 hectare of a.l. ranged from SKK 3 146 (Nitra region) to SKK 4 320 (Bratislava region). As regards production subsidies, the bulk of subsidies were targeted into Prešov and Žilina region and the least amount was paid to Nitra and Trnava region.

Economic results of profit and loss-making agricultural enterprises

51% of enterprises finished the year 2003 with a profit. These enterprises used 50% of agricultural land. Compared to the year before, the number of profitable enterprises has dropped down by 25% and the number of loss-making enterprises has doubled (101%) including the acreage of agricultural land which they used. The fall in profit made by profitable enterprises was less steep in the group of business companies than for agricultural co-operatives with only 35% of profitable enterprises in 2003.

The differences between both groups of enterprises deepened, while the profitable enterprises slightly increased their profit (11.9%) and the loss-making ones experienced a substantial increase in losses (52.0%). However, the profits of profitable enterprises were not of much importance, with 60% of those enterprises achieving only up to SKK 0.5 million in profit. The number of enterprises producing major losses above SKK 5 million has almost trebled (Figure 5).

This development was accompanied by the growth in income in both groups of enterprises, although the income grew faster than costs in the group of profitable enterprises, in the group of loss-making entities the income growth was slower than the growth in costs. The loss-making enterprises experienced a year-on-year growth (by 9.0%) in the key component of income, i.e. sales of own products and services, although the sales dropped down in profitable enterprises by 1.2%.

The sales of goods rose in both groups of enterprises, with higher share in profitable enterprises (79.1%) where the level of sales was 1.6 higher than that in the group of loss-making entities. This suggests that the profitable enterprises tried to compensate the decline in sales from the primary agricultural business by the sales of goods.

The faster growth of income in the group of profitable enterprises was caused by the effect of increased sales of goods (79.1%) and by the increased sales of fixed assets (34.6%). The decisive factor of profitability in this group of enterprises was the faster increase of subsidies

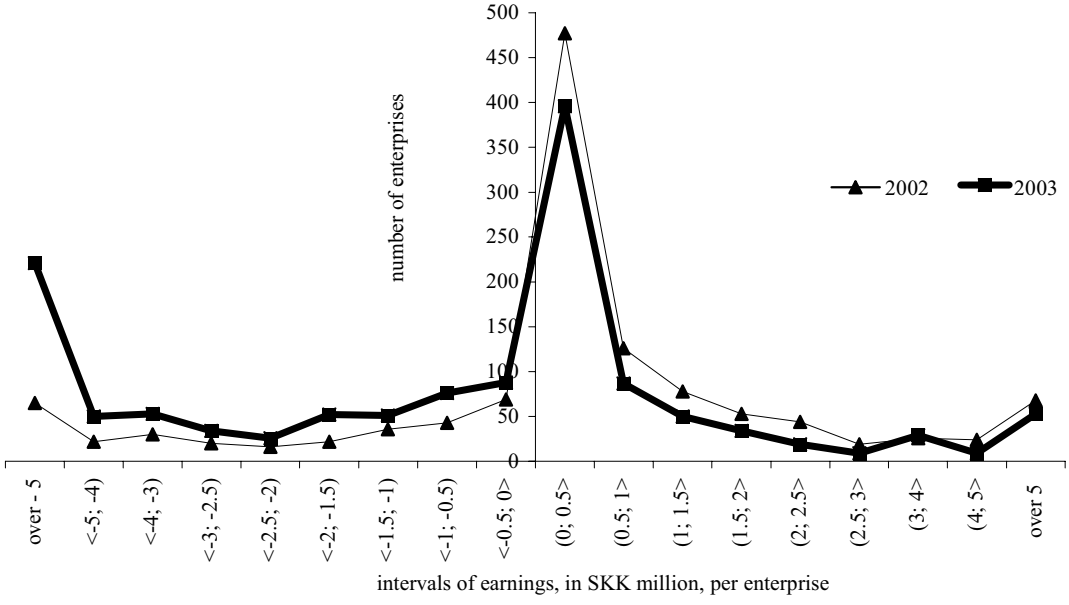

Figure 5. Number of profitable and loss-making enterprises in primary agricultural production, by volume of earnings

(8.3%). Just as in the year before, there were substantial differences in the stock change, with the decline in stock in both groups, although the decline was steeper in the group of loss-making enterprises. Both groups of enterprises enjoyed an increase in financial income, although the dynamic was faster in the group of loss-making enterprises (84.2%). The development of extraordinary income was different, with increase in the group of profitable enterprises (13.2%) and decrease in the group of loss-making ones (22.2%).

The added value has dropped down in both groups of enterprises, although the decline was faster in the group of profitable entities (19.0%) where the level of added value was higher by 59% than in the group of loss-making enterprises. The growth in production demand and decline in production contributed to the increasingly difficult generation of added value in both groups of enterprises (more in the group of profitable enterprises). This was caused by the higher production demand and unrealised production effects and, consequently, the lower added value due effects of drought.

Tangible and intangible fixed assets dropped down in both groups of enterprises, although in terms of production, the blockage of assets was much higher in the group of loss-making enterprises (SKK 0.98 of fixed assets per SKK 1 of production in the group of profitable enterprises and SKK 1.31 in the group of loss-making ones); combined with lower usability of assets.

The financial situation was affected by the development in current assets – these increased only in the group of profitable enterprises (3.6%), which was caused mainly by the increase in short-term payables (25.2%), since the development of current liquid assets was the same for both groups of enterprises. In both groups of enterprises, the overall adverse development in financial situation reflected in the decline of share of added value in production, with faster dynamic in the group of profitable enterprises. Both groups of enterprises compensated the lack of resources by stock consumption, while the stock changes had a major negative impact on the loss-making enterprises. The credit exposure was higher in the group of profitable enterprises largely caused by the year-on-year growth of loans (9.7%).

The equity experienced different development. The volume of equity increased in the group of loss-making enterprises (1.5%) and dropped down substantially in the group of profitable entities (7.8%), although the volume of equity was slightly higher in the group of loss-making enterprises (1.5%). This was caused by higher share of agricultural cooperatives in the group of loss-making enterprises, which owned higher share of equity than the business companies.

A different development in investments also took place. The profitable enterprises experienced slight increase in investment activities (1.1%) while the loss-making enterprises sharply cut the investments (18.4%) combined with higher volume of available resources for the renewal of assets.

Both groups of enterprises suffered from insolvency, mainly primary insolvency in the group of loss-making enterprises. This has also contributed to bad payment discipline, and it took 25 days longer for the loss-making enterprises to pay their liabilities when compared to the profitable ones.

Performance results for small and medium sized enterprises legal entities

Under the Act No 231/1999, Coll. on state assistance which defines small and medium enterprises, and which took effect in 2000, most of the enterprises in primary agricultural production in 2003 were ranked as small and medium enterprises, in terms of size measured by number of employees (98.7%). 66.4% of enterprises met the criteria for small enterprises (0–49 employees) and their number has grown by 23.4% compared to the year before. 32.3% of enterprises met the criteria for medium-size enterprise (50–249 employees), which was 13.4% less than the year before.

In 2003, small and medium enterprises in agricultural production (legal entities) produced a loss of SKK –1 452 per hectare of a.l., which represented a decrease in earnings by SKK 1 587 compared to the previous year. Except small business companies which posted a moderate profit of SKK 164 per hectare of a.l., all other forms and groups of enterprises (in terms of size) produced a loss. Medium sized business companies with 50 to 249 employees made smaller loss than the agricultural cooperatives. The cooperatives produced a loss in both groups, mainly in the category of medium size enterprises with 50 to 249 employees.

The number of profitable enterprises decreased against the backdrop of decline in earnings, although the development of internal structure was different for each enterprise group (in breakdown by size of the enterprise). It was only the group of small business companies that contributed to the rise (1.4%) in the number of profitable enterprises. Overall, the small and medium enterprises contributed to the decline in number of profitable enterprises by 24.7%, with stronger decline dynamic in the group of medium size enterprises (48.2%) due to reduction of profitable enterprises in the group of cooperatives (63.2%). The business companies achieved higher labour productivity measured in income and added value per employee, in each enterprise grouping by size.

Performance results of natural persons – private farmers

The difference between the income and expenses of natural persons, i.e. the earnings per 1 hectare of agricultural land has decreased by 15.8 % compared to the year before (from SKK 790 to SKK 665 per hectare of a.l.). This business would also produce a loss (SKK –352 per hectare of a.l. after deduction of farmer's personal income (calculated on the level of average salary paid to the

workers of legal entities in agriculture). Under the Tax Act, the personal income cannot be treated as a cost item.

According to the methodology now in effect, which does not take into account the deduction of personal income paid to PF, almost 76% of PFs recorded a small profit, in average up to SKK 95 000, i.e. by 13.6% less than in 2002. The decline in earnings was combined with the decline in overall income (17.4%), especially due to decline in sales of products and services (20.1%) and sales of goods (40.5%). Compared to the previous year, the operation subsidies increased by 32% and the overall subsidies (including investment subsidies) made up for 13.9% of the overall income. In average, SKK 495 000 of overall subsidies were paid out per PF, of that SKK 409 000 was paid out in operation subsidies.

In regional terms, the highest earnings per hectare of a.l. were achieved by PFs in the Bratislava and Trnava regions, and the lowest earnings were recorded in the region of Prešov. The remaining regions recorded results below the Slovak average. In addition to specialization, the amount of earnings may be affected by administrative procedure of mandatory registration of natural persons in the place of their permanent residence, especially in the Bratislava region, while their place of business is often located outside that territory. Therefore, the earnings and respective taxes are reported in the place of registration, although the generation of earnings and cost demands, including the assets used in the generation of earnings (land) takes place outside the territory of that particular region, resulting in partial distortion of average results.

In average, the income on agricultural business provided for 72.8% of the overall income, while the business focused mostly on the effective crop production which made up for 53% of overall income and 73% of income on agricultural business.

The reduction in income was similar to the decline in expenses (17.5%), with the largest portion of decline attributable to the purchase of material (10%). PFs did most of the work by themselves, often assisted by members of their families and seasonal workers, which reflected in the low share of labour costs on the overall costs. That share amounted to only 6.3% with moderate year-on-year growth by 0.5 percentage point. The low share of labour costs also affected the method of bookkeeping for PFs, where the personal income of PFs is not included in the costs. The overhead expenses represented the largest portion of expenses (48.2%), followed by the purchase of material (32.9%). PFs provided SKK 96.8 of expenses per SKK 100 of income. In contrast to legal entities, the lower cost demand was caused by lower labour costs and, consequently, by lower fund contributions.

In terms of land acreage in use, most of the enterprises (35.4%) made their business on the acreage below 50 hectares of a.l. and only 4.9% of enterprises used more than 500 hectares of a.l. The number of PFs using more than 50 hectares of agricultural land has increased. The earnings (including personal income) decreased with increasing land acreage. The highest level of earnings was achieved by enterprises that used up to 50 hectares of a.l. The earnings would have shown an opposite trend if the personal income of PFs was not deducted, in which case the earnings would have increased with the land acreage in use.

Compared to the year before, the volume of total assets owned by PFs has dropped down (9.6%), especially in smaller enterprises and its value per hectare of a.l. amounted to less than a half of the value of assets owned by legal entities. This has also contributed to the lower cost demand of production by PFs, especially due to lower costs of depreciation, repairs and maintenance.

In contrast to the previous years, PFs found themselves in primary insolvency. Their liabilities exceeded payables by 10.2%, thereby extending the period of payment which was only 6 days shorter than in the case of legal entities. The most distinctive decline (6.4%) in the volume of bank loans was recorded in the group of smallest enterprises. By contrast, due to decline in overall assets which was faster than the decline in loans, the total and credit exposure has increased.

The results of PFs were mostly affected by their production specialization mainly focused on the crop production where the income exceeded livestock production income by 231.8%; and, compared to the year before, the plant production income decreased (20%), just like the income on animal production (32%).

CONCLUSION

The economic results of enterprises in primary agricultural production in 2003 have shown that after two profitable years the agriculture again recorded a loss of SKK 2 376 million and the earnings dropped down by SKK 2 850 million. This was caused by a number of factors, mainly the following:

– adverse climate conditions in early 2003 (cold weather and hail) which destroyed the crops in numerous locations and other climatic effects throughout the year – drought that has stricken large areas across Slovakia and adversely affected the per hectare yields, especially of wheat and other crops, resulting in the decline in crop production;
– pricing effect – widening price gap compared to the year before (increased input prices in agriculture and reduced sale prices of agricultural products, especially in livestock production);
– damage in livestock production – swine fever;
– administrative effects of handling depreciation in bookkeeping (reduced period of depreciation for the fixed assets).

The diverse development of the decisive economic and financial indicators in each group of enterprises, in breakdown by legal form of organisation:

– They achieved an average loss of SKK 1 411 per hectare of a.l. (SKK 2 489 million) and the earnings before tax dropped down by SKK 1 619 per hectare of a.l. (SKK 2 668 million). Both major groups of enterprises made a

loss, although the loss was smaller for business companies (SKK –59 per hectare of a.l.) compared to the group of agricultural cooperatives (SKK –2 441 per hectare of a.l.). A substantial increase in loss produced by agricultural cooperatives, with high portion of loss-making enterprises was also adversely affected by higher number of workers per hectare of a.l. and resulting higher labour costs in production, as well as by worse usability of assets, which illustrates the slower pace of production restructuring in this group of enterprises.

– 51% of legal agricultural entities were profitable, with higher proportion of legal entities in the sector of business companies (65%), compared to agricultural cooperatives (35%). The differences were deeper between profitable and loss-making groups of enterprises in that the profitable enterprises slightly increased their profit (11.9%) and loss-making ones experienced a major increase in losses (52.0%). Some 60% of profitable enterprises made only a small profit below SKK 0.5 million and the number of enterprises producing major losses above SKK 5 million per enterprise has almost trebled.
– From the regional point of view, all the regions experienced worse performance compared to the year before, and in average, they all produced a loss. The loss-making performance was more typical for production areas. The loss was caused mainly by climatic effects, such as drought. These effects were not covered by the commercial insurance companies and the system of compensation of catastrophic damage, under the Act No 240/1998, did not properly address the damage in 2003.
– The overall income has slightly dropped down (0.5%), especially due to reduction in operating income in agricultural cooperatives, while the operating income has increased in the group of business companies.
– The costs were mostly covered by the sales of own products and services (62.6%), operating subsidies (9.3%) and to a lesser extent by the sales of fixed assets (5.4%).
– Due to decline in production (8.8%), which was faster than the decline in production demand (2%) caused mainly by the different pricing development, the book added value has dropped down in both major groups of enterprises.
– Despite the reduction of employees the labour productivity measured by production and by added value has decreased combined with the price effect.
– Overall, the volume of equity (assets) dropped down by 2.3%, while it increased in the group of business companies (3.4%) and decreased in the group of agricultural cooperatives (4.4%). Also, the internal structure of equity has worsened to the detriment of own capital.
– Except the land and primary herd, which was supported by investments mainly in the group of business companies, the investments have dropped down for all types of assets, and this was reflected in increased depreciation (3.6%) which achieved the value of 47.5% and the critical limit of depreciation (69.7%) was achieved in the group of agricultural machinery.
– The circulating assets have dropped down and 94.3% of enterprises were insolvent, of that, 63% of enterprises experienced primary insolvency.
– The enterprises received more banking loans, combined with the pre-accession aid programmes, such as the SAPARD programme and guarantee programmes provided by the SGDB.

Natural persons

– They used 7.7% of agricultural land and achieved a profit of SKK 665 per hectare of a.l. and per enterprise, including the personal income per farmer in the amount of SKK 95 000. However, after the deduction of entrepreneur's personal income, this form of business would also make a loss. The share of profitable enterprises prevailed (76%) and the highest earnings per hectare of a.l. were achieved in the Bratislava and Trnava region, while the lowest earnings were recorded in the Prešov region.
– Most of PFs (35.4%) used up to 50 hectares of a.l.; and their number increased, compared to the year before, while only 4.9% of PFs used more than 500 hectares of a.l. Just as in previous years, PFs were focused mostly on crop production, which made up for 50% of their overall income.
– The earnings (including personal income per farmer) dropped down in proportion to the increasing areas of land in use and the highest level of earnings was achieved by enterprises that owned up to 50 hectares of a.l. The earnings would have shown an opposite trend if the personal income of PFs was not deducted, whereby the earnings would have increased in proportion with the land acreage in use.
– Compared to the year before, the funding of operation and investment activities from the bank loans has increased. Despite these measures, the overall volume of assets has dropped down by 9.6%.
– In contrast to previous years, the enterprises were found to be in primary insolvency.

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