

Some aspects of land market in Central and Eastern European countries: focus on Slovakia

Vybrané aspekty trhu s pôdou v krajinách strednej a východnej Európy: dôraz na Slovensko

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Abstract: The presented research was done in two different regions in Slovakia, characterized by different soil and natural conditions and also production and economic results. The micro-economic analysis was aiming not only at private farmers but also at other legal entities using land for production of agricultural products. The first monitored group consisted of 412 private farmers, farming in average 43.2 ha of agricultural land. The second group consisted of 150 businesses, having 1 866 ha of agricultural land in average. The paper also shows different problems of restructuring land markets in some countries of Central and Eastern Europe.

Key words: land ownership, land market, land price, sale of land, purchase of land, land transactions

Abstrakt: Prezentovaný výskum bol uskutočnený v dvoch rozdielnych regiónoch Slovenska, charakterizovaných rozdielnymi pôdnymi a prírodnými podmienkami a tiež produkčnými a ekonomickými výsledkami. Mikroekonomická analýza sa týkala nielen súkromných farmárov, ale aj ostatných podnikateľských subjektov, ktoré používajú poľnohospodársku pôdu na produkčné účely. Prvá skupina, ktorá bola predmetom výskumu, pozostávala zo 412 súkromných farmárov, ktorí obhospodarujú farmy s priemernou veľkosťou 43,2 ha poľnohospodárskej pôdy. Druhá skupina pozostáva zo 150 podnikov, ktoré hospodária na priemernej výmere 1 866 ha poľnohospodárskej pôdy. Príspevok tiež venuje pozornosť rozdielnym problémom na trhu s pôdou vo vybraných krajinách strednej a východnej Európy.

Kľúčové slová: vlastníctvo pôdy, trh s pôdou, cena pôdy, predaj pôdy, nákup pôdy, transakcie s pôdou

LAND REFORM AND RESTRUCTURING OF SLOVAK AGRICULTURE

During the transformation process, the land ownership became a relevant economic category, not only a formal legal relationship. However, the problem is the extremely atomized land ownership. In 1977, there existed 9.6 million plots with the average size 0.45 hectares owned by 12 up to 15 owners (OECD 1997).

While in the countries with market economy the land ownership was being consolidated, in the Slovak Republic this process has not finished yet. The atomized land ownership slowed down the change to private farming. One of the reasons are also high transaction costs. These have mostly technical character (lost and damaged cadastral maps and cadastres ...) and legal character (missing registra-

tion of changes in land ownership). The result was status quo in land use and also decreasing long-term investments in agriculture. Additional problems with dividing the coop's capital and imperfections on capital markets connected with limited access to capital caused the growth of starting costs of transition to private farming.

Restructuring of Slovak agriculture was not successful in the putting pressure on private farmers. Most agricultural land is still cultivated by the transformed cooperative farms and even higher is their share in agricultural production (Bielik, Rajčaniová 2004; Podolák 2000).

What are the main reasons that private farmers are not the most important legal entities acting in Slovak agriculture?

High transaction costs were one of the reasons why transition to private farming was not successful. Land

ownership is atomized. Ownership rights are uncertain due to the 50 years lack of private ownership. There are also obstacles on capital markets for farmers to get credit. All these factors cause increased opening transaction costs for private farming (Bielik et al. 2002).

The agricultural land market remains underdeveloped. The land market was characterized as follows:

- Sale and purchase of agricultural land involves typically smaller plots.
- Depending on the type of land, the market prices of small plots were several times higher than the official land rates.
- The highest intensity of land transactions occurred in the most productive agricultural district in Slovakia, the tourism-intensive district is in the mountain area in Slovakia.
- The current official land prices are considerably lower than the market price and the difference will continue to widen up.

LAND OWNERSHIP OF THE INDIVIDUAL FARMS IN SLOVAKIA

Table 1 shows the differences of analyzed samples according to the cultivated agricultural and arable land. There were small and large farms in the group. Approximately 8% of the sample cultivates more than 100 hectares of agricultural land. A large group of farmers cultivates land between 25–100 hectares and from 0 up to 2 hectares of agricultural land. The average size of land cultivated by one private farmer was 43.22 hectares of agricultural land and 40.40 hectares of arable land.

The quality of cultivated land has impact on the official land price. The lowest quality of land is evaluated by 10 000 SKK per hectare, while the highest quality of land is evaluated by 100 000 SKK per hectare. However, a lot of farmers do not know the administrative price of their cultivated land.

Table 1. The share of cultivated agricultural and arable land

Categories	Share on the sample (agricultural land)	Share on the sample (arable land)	Number of private farmers (agricultural land)	Number of farmers (arable land)
0 ha	9	10	37	40
0–2 ha	20	25	83	104
2– 5 ha	15	12	62	49
5–10 ha	11	9	45	39
10–25 ha	16	17	64	72
25–100 ha	20	17	83	70
100–500 ha	8	8	33	34
500 and more	1	1	5	4
Total	100	100	412	412

Table 2. Ownership and rent of the land

Categories	Share (%)				Number of farmers			
	1	2	3	4	1	2	3	4
0 ha	28	67	87	94	117	276	359	386
Up to 5 ha	38	8	8	2	158	34	35	10
Up to 20 ha	19	7	4	2	80	29	16	9
Up to 50 ha	9	8	0	1	39	33	2	5
50 ha and more	4	10	0	0	18	40	0	2
Total	100	100	100	100	412	412	412	412

(1) Owned land, (2) Rent paid, (3) Rent received from coops, (4) Rent received from other subjects

Table 2 highlights the facts concerning ownership and rent of the land as well as the relationship concerning the rent of agricultural land between cooperatives or other subjects. Approximately 22% of the sample would like to rent additional land. Most of the farmers (61%) are not interested in increasing the size of cultivated land by renting additional land.

There are several reasons why the private farmers did not rent the land even if they wanted to do so. Some of the farmers did not have enough money to pay the rent; others were limited in the possibilities to employ their relatives. But most of the farmers saw big problems in land market limitations and high rents. Some of the private farmers rent their land to cooperatives. The main reason why do they do so is that they cannot cultivate the land by themselves, because of health reasons, high age and so on. The other reasons are for example high costs of land cultivation as well as the lack of time to cultivate more land. Similar reasons explain also why some of the private farmers rent the land to other subjects not to cooperatives. Only 4% of the farmers would like to rent more land than they did until now, while

67% is decided no to rent more land. Table 3 shows the reasons why the private farmers have not rented more land even if they wanted.

There are several reasons why people do not feel safe as for the land ownership. The most reasons are: unclear land ownership or unclear borders of the plots. Some of the farmers (20%) do not feel safe for the land they pay the rent. As for buying the land, 46% of private farmers do not see any problems in low supply in the land market and think that the land is accessible. One fourth of the farmers does not know about any land for sale in their surrounding. 19% of farmers of analyzed group have bought some land during the last three years and 14% of the farmers have sold the land. Half of the farmers who have not sold or bought the land during the last three years still know the actual market price of agricultural land in their region.

There are different reasons why the private farmers think that buying land is difficult. Table 4 shows some of these reasons.

Only 32% of private farmers would like to sell some of the owned land and Table 5 brings the main reasons for selling the land.

Table 3. Reasons why the private farmers have not rented more land even if they wanted

Categories	1	2	4	5	Total
Share (%)	11	79	2	8	100
Number of private farmers	7	48	1	5	61

(1) There was no demand, (2) It was not profitable to rent the land, (3) It was not common to rent the land, (4) The borders of the plots were not clear, (5) Other

Table 4. Main reasons why do the private farmers think that buying the land is difficult

Categories	1	2	3	4	5	6	N	Does not know	Total
Share (%)	17	14	7	5	7	3	47	1	100
Number of private farmers	68	57	28	19	30	11	193	6	412

(1) No supply, (2) Difficult legal process, (3) Unclear ownership, (4) Long legal process (5) High land price, (6) Other, (N) cannot say

Table 5. Main reasons for selling land

Categories	1	2	3	4	5	6	7	8	Does not know	Total
Share (%)	21	11	4	6	2	0	5	1	50	100
Number of private farmers	88	44	16	24	8	1	19	4	208	412

(1) No demand, (2) Difficult legal process, (3) Unclear ownership, (4) There are some concrete problems with land for sale, (5) Long legal process, (6) People are worried that some other people would also have claims on the land, (7) Low land price, (8) Other

CULTIVATING LAND BY AGRICULTURAL ENTERPRISES

The question about cultivating land by agricultural enterprises is one of the trivial questions of agricultural economy. Currently is more and more common because of the transformation process. That is why it is important to find out about the real situation in agricultural practice among producers. Table 6 represents total acreage of agricultural land divided into categories. Although the major part of the land consists of arable land, meadows and pastures are also significant. The acreage of orchards is very low (0.37% of cultivated land). On the other side we can see that the enterprises have in their land structure also non-agricultural land making 2.5% of their acreage.

The share of agricultural land rented by the enterprise is seen in the Table 7. As it is seen almost all the land farmed by enterprises is rented or from other sources. In other words, it means that Slovak enterprises do not own any agricultural land.

Official price of the land farmed by different enterprises was very different, mainly because of the

geographical location of enterprises. The enterprises from the southern region have reached higher prices. These prices are shown in Table 8. The official price of agricultural land for the whole group of enterprises was 45 260 SKK per hectare.

70% of enterprises expressed their interest in renting more land than they have rented before. On the other side, there was no enterprise interested in decreasing the acreage of cultivated land. This means that the expected approximating of Slovak enterprise acreage to the average farm in the European Union would probably not be achievable, contrariwise the acreage of land farmed by enterprises will probably increase (Bielik et al. 2004).

SOME PROBLEMS OF LAND MARKET IN CENTRAL AND EASTERN EUROPEAN REGION

Functioning of land market is of great economic importance, also from the viewpoint of credit possibilities and improving the financial flows in ag-

Table 6. Acreage of agricultural land divided into categories

Categories	A	B	C	D	E	F	G	Total
Share (%)	61.77	34.20	0.37	1.17	0.01	0.01	2.47	100
Acreage (ha)	172 965	95 765	1 037	3 280	20	20	6 928	280 015

(A) Arable land, (B) Meadows and pastures, (C) Orchards, (D) Vineyards, (E) Hop-fields, (F) Greenhouses, (G) Non-agricultural land

Table 7. Acreage of rented land according to categories

Categories	A	B	C	D	E	F	G	Total
Share (%)	59	32	0	1	0	0	8	100
Acreage (ha)	171 399	94 268	973	3 271	0	19	2 382	272 312

(A) Arable land, (B) Meadows and pastures, (C) Orchards, (D) Vineyards, (E) Hop-fields, (F) Greenhouses, (G) Non-agricultural land

Table 8. Average official price of agricultural land

Categories	1	2	3	4	5	6	N	Total
Share (%)	13	23	6	17	33	7	1	100
Number of private farmers	20	34	9	26	49	10	2	150

(1) up to 8 000 SKK, (2) 8 001 up to 15 000 SKK, (3) 15 001 up to 30 000 SKK, (4) 30 001 up to 60 000 SKK, (5) 60 001 up to 90 000 SKK, (6) 90 001 SKK and more, (N) can not tell

riculture. In the opinion of Ukrainian and foreign experts, agricultural land in *Ukraine* (30 million ha) is valued for 60–70 milliard EUR. This is a huge “credit portfolio” for the future Land Credit Bank and new credit sources. The need of the whole agricultural sector of Ukraine, according to economists, is 10–12 milliards UAH (19.2 milliard EUR). Certainly it would radically speed up the technical and technological modernization of agricultural production, increase its profitability and significantly influence of the standards of living in rural area and its social infrastructure.

The major part (88%) of total agricultural land in *Poland* is used by nearly 2 million private, family farms. The average total area of a private farm is 8.3 ha, including 7.4 ha of agricultural land. Since 1990 the decrease in the number of farms has accelerated with the tendency towards their “polarisation”. It was reflected in the growing share of farms with the smallest area group (1.01–1.99 ha) and the largest one (15 ha and more). The increase in the share of larger farms has been explained by the lack of limitation in land turnover (up to the middle of 2003). The liquidation of job opportunities in non-

agricultural sectors of the national economy was the factor creating small farms through fragmentation of bigger ones. The total area of deals concerning the sale/purchase of agricultural land with participation of private farmers is estimated at 300–350 thousand ha per annum and transactions “farmer to farmer” constitute 80% of all sale/purchase contracts. The private market, after some years of stagnation, demonstrates the rising number of deals. It resulted from increase in sale of land in relation: farmer to farmer and higher prices of land recorded in transactions concluded among the farmers. That tendency started at the moment of Poland’s EU accession (Table 9) (Zadura 2005).

Agricultural land prices in *Latvia* were low and almost constant before the year 2000, although building plot prices and the state economic results are increasing from year to year. From Table 10 we can see that the agricultural land prices began to increase from the year 2001 and were almost constant (even decreasing) in the previous years. The noticeable growth was in the years 2003 and 2004.

However, agricultural land prices are very different in Latvia. The highest prices are in the central part of Latvia, where land is fertile and the topography is suitable for agriculture. The lowest prices are in the eastern part of the country, where land is sandy and the topography is hilly. For example, agricultural land in Riga district is not suitable for agriculture, but the prices are high because it is possible to transform agricultural land into building plots. Building plots are very valuable in this territory and the price reached the level of 767 EUR per one hectare in comparison to the Latgale district with the price of 214 EUR per hectare in 2004 (Lebedinska et al. 2005).

According to a report issued by the Romanian Ministry of Agriculture in 1998–2004, at the country level in the intramural area of 2 684 settlements, 242 469 transactions (out of which 220 200 sales) were concluded summing a total area of more than 66 000 hectares in *Romania*. The average price per hectare was 130 million ROL (about 6 000 EUR). The highest average price was in Bucharest – 1 400 million ROL.

According to the same report, in the extramural area for 2800 settlements the number of transactions was 266 627 (out of which 207 500 sales) in a total area of 427 700 hectares. The average price for hectare is about 10 million ROL (about 410 EUR). The highest average land price was in the surrounding districts to Bucharest (Prahova – 80 million ROL and Ilfov – 50 million ROL). In comparison with the end of 2004, the land prices raised in both intramural and extramural area with more than 20% according to the Realtors’ estimates and by the end of 2005 it

Table 9. Land market prices in Poland

Year	PLN per 1 ha of arable land
1992	1 220
1995	2 421
1998	4 379
2001	5 197
2004	6 755

Sources: Statistical Yearbooks of the Republic of Poland, Statistical Yearbooks of Polish Agriculture, 1992–2004

Table 10. Average agricultural land prices by year (in EUR per one hectare)

Year	Price
1998	228
1999	213
2000	199
2001	203
2002	221
2003	270
2004	363

will increase by 20%. This increase could reach three times higher prices than in 2003.

The very dynamic trend of land market has clear explanations:

- In intramural areas the investments in infrastructure (water supply, sewerage, gas, roads) have brought more facilities and comfort. Another reason is the financial facilities offered by mortgaged credits.
- In extramural areas, the investors coming from abroad interested in agricultural land (mostly in large area plots) raised the prices.

For agricultural land, the prices are varying according to the size, location, quality of soil and access to water and roads. The average price per hectare is currently, according to the Realtors, about 1 000 EUR for non-irrigated land and 2 500 EUR for irrigated land. There is a demand for plains but there is also a large interest as well in the hilly and mountain areas. The continuous increase in demand and the approaching date of Romania accession to the European Union has created a boom in land prices. The agricultural land became subject of speculative investments, many of such lands not being cultivated for long. More and more foreign companies are interested in buying agricultural land mostly in the western and southern part of Romania where the economic activity and trading are more developed.

Even though the land price in Romania is lower than in the EU countries. This is the main reason why it is very profitable for the foreign companies to buy agricultural land. The key interest is in land over 500 hectares that according to the EU policy may receive subsidies without being cultivated for 5 years in order to neutralize the chemicals for ecological cropping (Pamfil 2005).

Price of agricultural land in *Bulgaria* on average reaches 685 EUR per one hectare. Differences are, however, very big and prices vary from 500 to 5 000 EUR per one hectare of agricultural land. The offer is bigger than demand. It defines comparatively low price level of land. The land market is in direct relation with the incomes from agricultural production. The agricultural land market depends on incomes from agricultural production. The proof is an active land market in good economy in 2004. The distinction of agricultural land market by regions is maintained. It depends on the regional difference in active production structures, incomes from agricultural production and ownership allocation. The land category did not exert influence on forming market prices. The price is increasing for the consolidated land properties or properties with little number of heirs.

CONCLUSION

The economic growth of the country cannot be imagined without the reliable, secure and efficient source of information concerning real estate. Clear and secure real estate rights, as well as the up to date and reliable registration of real estate are the most important circumstances for production of capital. With reliable information about the asset, and well-implemented legal framework, real estate is no longer just a physical object; it becomes a basis for investment and production of new capital. People must be able to see their assets as potential capital, not just as a place where to live (house) or work (land).

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