Selling and buying of farmland in Bulgaria during the pre-accession period to the European Union

Prodej a koupě zemědělských pozemků v Bulharsku v předvstupním období do EU

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Abstract: The expectations for a successful start of the market for the selling/buying of farmland were based on the significant fragmentation of land plots and the impractical distribution of ownership. Most of the owners are people living in larger towns, people who practice non-agricultural professions, or older people who do not want to and are not able to cultivate their land. The majority of the first two groups of owners are potential sellers. The third group of owners are people whose lives are closely connected with agriculture but either they do not own land or the size of the land they own makes its cultivation ineffective. It is logical to expect that the owners from this group will become the potential buyers of land. The expectations for the activation of the land market that will result in the restructuring and amalgamation of land ownership were not justified.

Key words: farm land market, farm selling-buying market, land prices, size of sold land estates, factors for the development of the farm market

Abstrakt: Očekávání úspěšného zahájení prodeje a nákupu zemědělské půdy bylo založeno na významném roztříštění zemědělských pozemků a nepraktickém rozdělení vlastnictví. Většina vlastníků žije ve velkých městech, mají nezemědělské povolání nebo jde o staré lidi, kteří nechtějí nebo nemohou půdu obhospodařovat. Většina osob z prvních dvou skupin jsou potenciální prodejci půdy. Třetí skupina vlastníků jsou lidé jejichž životy jsou úzce spojeny se zemědělstvím, ale buď půdu nevlastní, nebo vlastní pozemek takové velikosti, že není efektivní ho obhospodařovat. Logicky lze očekávat, že tito vlastníci budou potenciálními kupci půdy. Očekávání aktivace trhu s půdou, který povede k restrukturalizaci a sloučení vlastnictví půdy nebylo oprávněno.

Klíčová slova: trh se zemědělskou půdou, ceny půdy, velikost prodávaných zemědělských pozemků, činitelé rozvoje zemědělského trhu

DEVELOPMENT AND INTENSITY OF FARM LAND MARKET

During the period 1999–2002, agricultural land market has become more active. Despite this, the share of sold land is still insignificant (in 1999/00 – 0.3%, in 2000/01 – 1.2% and in 2001/02 – 0.7% from arable land). In reality, the farmland market is still not developed mainly due to the lack of solvent demand. Deals that were concluded are few in number and to a great extent unevenly distributed throughout the territory of the country. Land market is very unevenly developed in regional aspect. Bulgaria is divided into 6 planning regions according to NUTS II. In Northeastern region, the amount of sold land is half of the total amount of land sold in the country (61%), whilst in Southwestern, Northwestern and Southeastern regions it varies between 2% and 8%. The demand for land is greatest in the vicinity of the capital, seacoast, big cities, resorts, along big roads, etc., where there is possibility for transformation of agricultural land into non-agricultural. Recently the demand for land suitable

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for organic agriculture is rising; in mountainous and semi-mountainous regions – for meadows and pastures for stockbreeding and for eco-tourism. Demand is for amalgamated land whilst mainly small plots of land, often abandoned, are supplied.

FLUCTUATIONS OF THE SIZE OF SOLD LAND ESTATES

The size of sold estates increased by 10% in 2001; in 2001/02 it decreased considerably – by 48%. The average size covers two extremes. Owners of small land estates attempt to enlarge their property in order to make production more effective and competitive. They face a number of difficulties along their way: limited financial resources, severe credit requirements by banks, lack of preferential prices for purchasing agricultural land, capital-consuming and low-effective agricultural production, etc. Representatives of the second group are large leaseholders and businessmen as well as real estate companies and banks who are mainly interested in larger land estates. There is a third group of buyers who purchase land with intention to sell it at a higher price after the accession of Bulgaria to the EU. Generally buyers with more substantial financial resources prefer larger land estates.

There are two groups of region in terms of land sold. The first one includes the regions in Northern Bulgaria where the amount of sold land is greater because the main production there is grain production and it requires larger land estates. The second group encompasses Southern Bulgaria and in this region the size of sold land estates is much smaller. The smallest land estates are bought in Southwestern part of Bulgaria, where the closeness of the capital makes the use of land for agricultural purposes less likely. In the Central Southern region, the small size of land estates is due to the fact that high-income and labour-consuming cultures are produced which do not require cultivation on a larger scale.

NEGATIVE FACTORS FOR THE DEVELOPMENT OF THE FARM MARKET

Some of the main factors that exercise a negative influence on the development of the market for selling/buying land are the following:
– Fragmentation of land property as opposed to demand of larger and consolidated land estates;
– Non-functioning relations between land owners and land users or land owners and owners of capital and knowledge;
– Low market prices of agricultural land;
– Absence of land tax;
– Lack of sufficient information of land prices and non-existence of an institution responsible for the organization and support of land deals;
– Not yet determined relations between heirs due to unfinished inheritance partitions, law suits for determination of property, etc.;
– Ban for selling land to foreigners;
– Low demand for agricultural products on domestic market and loss of traditional partners on international markets;
– Low competitiveness of Bulgarian agricultural products: (*i*) Input prices in agriculture increased substantially. The lack of resources leads to serious violations of technologies, low yields, capital consuming and uncompetitive production; (*ii*) Due to the signed agreements with the International Currency Board and the World Bank, Bulgaria stopped subsidizing agriculture while other countries are under the protection of different subsidy mechanisms as well as mechanisms for direct financial support; (*iii*) Small-scale and primitive production that cannot fulfill the high quality requirements on the western markets.
– Unfavorable economic environment – unachievable requirements for credit granting set by banks, lack of sufficient financial resources, ruined machinery and equipment of former Co-operative Agricultural Farms.

PRECONDITIONS FAVORING THE DEVELOPMENT OF THE FARM MARKET

Recently the market for the selling/buying of land is becoming a little more active and this is due to several factors.
– In order to become eligible for financial grant from the SAPARD fund (EU), there is a requirement for the minimal size of farms that has to be fulfilled;
– After the end of the negotiations for accession of Bulgaria to the EU and after the necessary administrative mechanisms for utilization of money from the SAPARD fund were created, there have been rising expectations for improvement of conditions in agriculture. This encouraged investments in purchasing agricultural land.
– The interest in purchasing and renting land increased after the changes in the CAP of the EU because all kinds of payments are calculated on the bases of land size in hectares and therefore the more land is owned-rented, the higher the payments.

– Deals with land have become more numerous because of amendments to the Law on Possession and Use of Agricultural Lands, according to which owners of agricultural lands are exempt from state, notarial, and local taxes and fares in the case of voluntary division of property and deals with land for the period of five years.
– The changes on the international market associated with increase of demand for some agricultural goods;
– As a result from the continually rising unemployment, some of landowners consider agriculture as an alternative source of income;
– The short-term character of land leasing since the uncertainty forces land tenants to buy land;
– Land leasing becomes one of the main and most effective methods of land use because prices of land are very low;
– Some agricultural producers bought in the beginning of the reform agricultural equipment and machinery that could be used effectively only in the large-scale production
– Land leasing focuses mainly on the production of grain crops since the production process is entirely mechanized and the economies of scale require a larger size of farms.
– The interest of processors of agricultural produce and real estate companies rises;
– In the last 5 years, a new group of potential buyers appeared – owners of nominal compensatory bonds;
– The establishment of National Company "Land" is expected to increase the activity of land market.

PRICES OF FARMLAND

In Bulgaria, land supply is several times higher than land demand, and this determines the low level of prices. It is significant that at the present time, the price of 1 ha of fertile land is less than ten times the average monthly wage while in some countries, despite the fact that the average level of wages is much higher, the price of 1 ha of fertile land is equal to 6–8 monthly wages and in some countries even more.

The average price of land in the country during the period 1999–2000 was 685 EUR/ha, in 2000–2001 it increased and reached 705 EUR/ha and in 2001–2002 remained at the level of 705 EUR/ha (Table 1). Despite the positive trend, the prices are still low. The prices in the Southwestern region are the highest in the country (about three times higher than the average), followed by Southern Central region. In these regions, land is purchased for nonagricultural purposes as

Table 1. Land prices in Bulgaria, EUR per hectare

Region	1999/2000	2000/2001	2001/2002
North-Western	**640**	**460**	**575**
Vidin	1 015	460	390
Vratza	350	365	650
Montana	560	460	575
North-Central	*525*	*485*	*600*
V. Tarnovo	600	435	685
Gabrovo	1 155	2 300	2 350
Lovech	1 170	745	800
Pleven	585	510	575
Ruse	420	340	450
North-Eastern	**615**	**645**	**535**
Varna	1 000	645	500
Dobrich	460	725	700
Razgrad	450	335	425
Silistra	585	460	500
Targoviste	530	350	475
Shumen	505	455	400
South-Eastern	**560**	**630**	**820**
Burgas	895	1 030	1 200
Sliven	635	540	825
Jambol	430	435	575
South-Central	**1 085**	**1 550**	**1 405**
Kardjali	1 670	860	1 090
Pazardjik	2 085	765	1 560
Plovdiv	1 135	2340	1 525
Smolian	1 415	1 090	1 240
Stara Zagora	800	975	1 240
Haskovo	1 190	1 340	1 350
South-Western	**1 295**	**1 560**	**2 190**
Blagoevgrad	970	1 585	2 545
Kjustendil	2 020	1 750	1 800
Pernik	1 055	1 130	2 450
Sofia	1 130	1 610	1 950
Bulgaria	**685**	**705**	**705**

Source: State and tendencies for the development of land market in Bulgaria (2001, 2003).

well. The demand is higher due to the smaller availability of land in these regions. The higher prices in the South Central region are also due to the fact that more profitable cultures are cultivated there. The Southeastern region comes third mainly due to the closeness to the seacoast. The prices are the highest of land close to the capital, to the seacoast, in big cities, and along large roads where land can be used for non-agriculture purposes. In Northeastern, Northwestern and Northern Central regions land is sold at lowest prices due to the large availability of land, lack of demand of land for recreational purposes, frequent droughts and hailstorms, low level of rent payments, etc.

The average level of prices masks large differences between the prices of agricultural land and the prices of land intended for non-agricultural use. In some districts, prices vary in huge ranges: in Montana – from 50 to 14 500 EUR/ha, in Blagoevgrad – from 160 to 16 665 EUR/ha, in Lovech – from 250 to 40 000 EUR per ha, etc. In the majority of districts, the prices are about 100–250 EUR/ha. In most cases, there is no clear differentiation in prices in terms of ways of the land use and category.

In conclusion, we might say that as 2007, the year of the accession of Bulgaria to the EU, approaches, the demand for land increases although land prices remain unjustifiably low. With the establishment of the National Company "Land" together with further appropriate interference from the State, the activity of land market is expected to grow which will eventually lead to a more amalgamated and rationalized land tenure and ownership in the country.

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