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DEVELOPMENT OF FARM INCOME IN LATVIA

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1. DATA

1.1. Simplified Economic Accounts of Agriculture (EAA)

Table 1. Main items of Latvian Economic Accounts of Agriculture, 1995- 2000

Indicators	Value, mil. Ls					
	1995.	1996.	1997.	1998.	1999.n	2000 p
Total output	***407***	***389,8***	***420***	***365,3***	***305,8***	
From which - crop	**175,7**	**191,9**	**196,8**	**156,9**	**138,2**	
Livestock	**231,3**	**198**	**223,2**	**208,4**	**154,3**	
Non-separable act.	**x**	**x**	**x**	**2,8**	**13,3**	**14,7**
Final production	***236,4***	***245,9***	***243,4***	***210,6***	***177,8***	***190,2***
From which - crop	**62,6**	**89,5**	**79,5**	**59,4**	**56**	**53,5**
cereals	5,9	34,8	31,2	20,1	16,3	18,6
potatoes	13,9	20	13,4	6,3	12	9,7
Sugar beets	5,3	5,2	8,4	12,4	9,3	7,6
vegetables	26	20,3	16,2	10,4	10,2	9,5
Livestock	**173,8**	**156,4**	**163,9**	**148,3**	**108,5**	**122**
Milk	59,7	67,3	71,6	68,1	50,6	57,6
Beef	24,4	15,4	14,3	12,9	6,1	10,2
pigs	54,2	34,7	40,1	36	26,7	27,5
poultry and eggs	24,2	27,1	26,4	24,1	20,4	22,6
Non-separable act.	**x**	**x**	**x**	**2,8**	**13,3**	**14,7**
Intermediate cons.	***83,8***	***104,2***	***114,4***	***107,6***	***94,5***	***97,2***
Gross value added (market prices)	152,6	141,7	129	103	83,3	93
Subsidies	8,4	9,34	12	18,4	18,1	13,8
Production related taxes	7,9	10,06	11,5	11,8	10,7	10,5
Depreciation	20,7	25,71	28,5	27,8	24,7	24,6
Net value added (factor costs)	***132,4***	***115,27***	***101***	***81,8***	***66***	***71,7***
renting costs	0,1	0,16	0,3	0,9	1,1	0,9
Interest payments	1,7	1,57	1,6	2,1	4,1	3
Income from agric	***130,6***	***113,5***	***99,2***	***78,8***	***60,8***	***67,8***
Taxes from income	5	5,1	6,8	6,8	5,9	6
Hired labour	22,5	22,9	17,2	14,9	9,7	9,1
Family labour income	103,1	85,5	75,3	57,1	45,2	52,7
Number of employed in agric. (thsd.)	174	166,8	172	163,8	156,4	147
Income per person engaged in agric. (Ls)	***722***	***650***	***537***	***440***	***351***	***420***

Sources: LVAEI (2000, 2001)

The data, presented in the table, comes from the EAA, prepared by the LVAEI in co-operation with CSB and MoA. It indicates the permanent trend of the decreasing of the income from agriculture - total and per person engaged. It was impossible to give a picture of

income per family labour person, because the correspondent labour input is not reported in the statistics.

1.2. Income of farm households other than from farming

Income of farm households other than from farming can only be characterised in comparable way, using the data from household budget surveys. Data from 1996-1999, presented in Table 2, indicate the permanent decrease of total disposable income in farmers' households, although the sample of this survey does not fully represent the same group of people as Table 1, because in this survey also other family members are included.

However the general trends are the same, as described by the data from EAA. Household budget surveys indicate the permanent decrease of net income from agricultural production, which is replaced not by the earnings from other businesses, but rather by different type of social transfers.

Table 2. Dynamics of total disposable income and its composition in farmers' households, 1996 - 1999

		1996	1997	1998	1999
Total disposable income (per household member)	Ls, per month	47,48	47,99	46,99	42,33
Net income from agricultural production	%	45	43	39	23
Compensation for labour	%	8	7	8	8
Social transfers	%	40	43	46	62
Net income from other businesses	%	0	0	0	0
Income from property	%	0	0	0	0
Income from sales	%	1	0	0	0
Income from other transfers	%	6	6	6	6

SOURCE: CSB (1997, 1998, 1999, 2000)

1.2.1. Farmers income versus rural and urban

As the result of decreasing profitability of agricultural production, the gap between the urban and he farmer income levels is steadily increasing. It can be illustrated by the development of farmers average income relative to urban average income, calculated from household budget survey data, and presented in Table 3.

Table 3. Evaluation of rural and farm incomes (1996-1999)

	1996	1997	1998	1999
Farmers average income relative to urban average income	0,89	0,83	0,7	0,6
Farmers average income relative to rural average income	1	0,96	0,91	0,83
Share of social transfers in total farmers' income	0,4	0,43	0,46	0,62

SOURCE: CSB (1997, 1998, 1999, 2000)

The opportunities of farm households to find non-agricultural employment in rural areas are very limited, their ability to migrate to the urban sector is also limited typically by the law level of their skills and also high transfer costs (also due to the low real estate prices in rural

areas and growing ones in the cities). As a result agricultural households have become increasingly dependent on social transfers.

1.3. Agricultural annual work units

There is no data available about the agricultural labour input in the whole agricultural sector. Only the private individual holdings are surveyed. Therefore the relative data are presented in Table 4. It is assumed, that AWU corresponds to the work of 2440 hours per year. Data show the decreasing labour consumption for agricultural production in private individual holdings. It might indicate on some increasing labour efficiency.

Table 4. AWU in private individual households in Latvia (in AWU), 1996-1999

	1996	1997	1998	1999
Employed persons, total per 100 ha of agricultural land, of which	14.4	12,7	8,6	7,8
- *family labour*	14,2	12,4	8,3	7,5
- *hired labour*	0,2	0,3	0,3	0,3
Number of AWU on average per farm, total	0,9	0,9	0,8	0,9

SOURCE: CSB farms (2000, 1999, 1998, 1997)

2. ASSESSMENT OF PAST TRENDS AND FUTURE DEVELOPMENTS

2.1. Reasons for development and main problems

Latvia is maintaining quite liberal agricultural policy. The possible impact of relatively high bounded import tariff rates is almost completely offset by the Baltic FTA, including Estonia, which does not have any effective tariffs. It is resulted in relatively stable food prices, which also limits the possibilities to increase the agricultural output prices, which were decreasing since 1997 and, even after some increase is 2000, are still well below the 1998 level, preceding the “Russian crisis”.

The level of support, given via payments from state budget is also limited, and it cannot offset the impact of decreased output prices and also increased input prices.

The high number of people engaged in agricultural production and its subsistence character also puts some additional pressure on agriculture. It does not allow to speed-up the technological modernisation, which might be necessary in order to compensate the increase of the input prices. And the imputed labour costs are lower as real capital costs needed to improve the technical efficiency of the production.

2.2. Key drivers of income (e.g. price development, productivity gains, farm support policies)

Agricultural production related price indexes, estimated by LVAEI, (based on data from National accounts statistics, CPI, and EAA) are presented in Table 5.

Table 5. General agricultural price indexes

		1993.	1994.	1995.	1996.	1997.	1998.	1999.	2000.p.
Input prices	%	100%	140%	160%	180%	204%	207%	214%	227%
Agricultural output prices	%	100%	138%	159%	180%	170%	162%	142%	151%
Food retail prices	%	100%	133%	155%	174%	178%	180%	183%	178%
Producer support estimate (PSE)	mil.Ls			20,9	11,7	17,5	62,4	55,8	n.a
Budgetary payments	mil.Ls			8,4	9,34	12	18,4	18,1	13,8

SOURCE: LVAEI (2000, 2001), OECD (2000)

3. SUMMARY STATEMENT ON FARM INCOME AND KEY ISSUES INDICATING YOUR OVERALL ASSESSMENT.

- On average agricultural income is low. And it has a further polarisation trend if to compare with the averages in national economy (Table 6).

Table 6. Dynamics of farmers' income level relative to rural and urban averages

	1996	1997	1998	1999
Farmers average income relative to rural average income	1	0,96	0,91	0,83
Farmers average income relative to urban average income	0,89	0,83	0,7	0,6
Share of social transfers in total farmers' income	0,4	0,43	0,46	0,62

SOURCE: CSB (1997, 1998, 1999, 2000)

- The main trend in net farm income - decreasing of that per person and in total
- One of the reasons for this is cost-price squeeze, which is not compensated by the improvement of technology used, due to generally low income level, which does not stipulate pay back of the investments needed.
- Lack of alternatives, It is characterised by the dependency of rural households on farming.
- High dependence of rural households and, especially of the agricultural ones- on social security payments

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