The Eurozone Crisis and its Implications for Agriculture in Selected Regions of the World

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This set of articles examines possible impacts of the extended and ongoing economic difficulties experienced in the Eurozone on agriculture in various part of the world since 2010. Perhaps no other region has been as deeply affected by the economic crisis as the 17 member states of the European Union (EU) that use the euro as their common currency. The global economic crisis that started in late 2008 exposed latent and fundamental problems in the design and the institutions of the EU in general and those associated with the common currency in particular. Effects of the economic crisis continue to reverberate across the world, but particularly across the Eurozone and nations with close economic links to the area. Until recently, immediate concerns about the survival of the common European currency had somewhat abated. However, the mixed outcome of the Italian elections in February 2013 and the crisis in Cyprus that manifested itself the following month provided reminders that serious questions remain about the future path of integration among European nations, the financial sustainability of the social and economic model used in many European nations since WWII, and even whether and in which form the EU itself will endure.

The ongoing Eurozone crisis also affects the agricultural sector through a number of pathways, including a decline in credit access, a reduced EU budget and declining funds allocated to the Common Agricultural Policy (CAP), a drop in aggregate demand as a direct result of the crisis, and changes in export demand for agricultural products associated with exchange rate dynamics.

The first article, by Evert Van der Sluis of South Dakota State University and Maria Parlinska of Warsaw University of Life Sciences in Warsaw, Poland, provides an overview of Eurozone crisis. The authors stress the economic importance of the transatlantic relationship in a global context, discuss efforts among European nations to integrate their economies, and the intended role of the common currency to unite Europe. The article also explores the origins of the multifaceted Eurozone crisis, selected responses in dealing with the crisis, and links of the crisis to the agricultural sector.
The second article, by Mathew Shane of the Economic Research Service of the U.S. Department of Agriculture and Terry Roe of the University of Minnesota, looks at the consequences of the Eurozone problems for U.S. agricultural exports. Using an international economic model, the authors project the effects of the Eurozone crisis on the prospects for U.S. agricultural exports, based on various assumptions and scenarios. Their results indicate U.S. agricultural exports are likely to continue to increase, even in the presence of potential substantial drops in the value of the Euro relative to the dollar and a Gross Domestic Product (GDP) decline in the EU. These results are largely driven by the increased demand stemming from economic growth in developing countries. However, Shane and Roe also show that U.S. agricultural exports would only increase modestly in a scenario in which the Euro would be at parity and the EU would experience no economic growth for an extended period of time.

In the third article, Martin Petrick and Mathias Kloss from the Leibniz-Institute of Agricultural Development in Central and Eastern Europe (IAMO) in Halle (Saale), Germany, investigate the extent to which EU farmers have been affected by the crisis. They find that a minority of EU farmers had difficulty accessing credit since the start of the Eurozone crisis. In nations most affected by the crisis, low levels of credit use and limited financial leverage combined with declining interest rates kept farmers from experiencing excessive financial risk. As an aside to their findings, the authors note that the low level of financial penetration in the agricultural sector in nations most affected by the crisis indicates the presence of deeper structural problems in agricultural banking, and that EU agricultural credit markets are less integrated than anticipated. Petrick and Kloss further suggest that institutional weaknesses in the agricultural banking sector may limit structural change and inhibit further modernization in agriculture, which indicate a need for institutional reform in EU agricultural banking. Finally, the authors point out that agricultural policy measures and sector-specific rescue programs at the EU level provided farmers with a reliable stream of direct payments, thus mitigating the most severe impacts of the crisis for farmers.

In the final article, William H. Meyers and Kateryna Goychuk of the University of Missouri-Columbia, consider the effects of the Eurozone crisis on agriculture in the Europe and Central Asia Economies in Transition region. By considering trade, investment, credit flow, and remittance flow, the authors suggest that the region is negatively affected and remains vulnerable to economic shocks in the Eurozone. While smaller than those of the 2008-09 financial crisis, the authors find that the negative economic impacts of the Eurozone crisis have significantly dampened these nations’ abilities to recover from the 2009 recession. Meyers and Goychuk also note that the nations most affected by the Eurozone crisis are those most closely integrated with Eurozone economies. The authors further note that, while it is difficult to quantify the impacts on agriculture as a particular sector, the unavailability or lack of access to credit is expected to have a more profound impact on the agricultural sector in the region than the reduction in demand due to the crisis, except for those countries in the region that heavily rely on high-value exports to EU markets.

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