

SCIENTIFIC JOURNAL

**HIGHER ECONOMIC - SOCIAL SCHOOL IN
OSTROLEKA**

1/2022(44)

Łomża, 2022

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HIGHER SCHOOL OF AGRIBUSINESS IN LOMZA
18-402 Łomża, ul. Studencka 19, tel./fax. +48 86 216 94 97
www.wsa.edu.pl



Punkty Informacji Europejskiej w Ostrołęce
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Publikacja wydana ze wsparciem
finansowym
Komisji Europejskiej w ramach projektu
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HIGHER SCHOOL OF AGRIBUSINESS IN LOMZA
Łomża, 2022

ISSN 2391 - 9167

SCIENTIFIC JOURNAL – nr 1/2022(44)

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MODERN FEATURES OF BANK CREDIT SUPPORT TO AGRICULTURAL ENTERPRISES IN UKRAINE

Introduction

Agriculture is a leading sector of the Ukrainian economy, which plays an important role in shaping GDP, export potential, food security of the country, budget revenues, production and economic potential for rural development. However, a study of the financial security of agricultural entities shows that they are mainly working from their own resources, which are insufficient for self-financing. The specifics of agricultural production makes this industry less competitive in the credit market, but the normal functioning of economic entities without credit resources is almost impossible. Attracting loans for agricultural producers is not a forced measure, but an objective reality for efficient management.

In economic theory, as among scholars, there are still discussions about the problem of the nature of the credit market, its impact on the lending system of agricultural enterprises. The following scientists have studied the problems of bank credits to agricultural enterprises in Ukraine: Trusova N., Radchenko N., Rubtsova N., Marenych T., Maliy O., Ignatiuk V., Malakhova Yu., Sukmanyuk V., Zelisko I., G. Pirig, Nepochatenko O., Mudrak R. and others. However, the instability of the economic situation necessitates further study of trends in the impact of credit resources on the development of agricultural enterprises.

The purpose of the article is to study the processes of bank credit support of agricultural enterprises in Ukraine.

Results of the research

Ukraine's agriculture may become more productive if investment in the Ukrainian agricultural sector grows. One of the problems of the domestic agricultural sector is the lack of access to credit resources. One of the most used and effective tools of the mechanism of financial regulation of agricultural development is crediting. Regarding the role of the credit market in providing bank loans to agricultural enterprises I. Zelisko, the author emphasizes that "...in the market of credit services bank loans help to transfer of temporarily free capital

in the most profitable sectors of the national economy with a short period of production cycle" (Zelisko, 2013). According to G.I. Pirig, developed credit relations in agriculture are a system of relationships between banking and non-banking financial institutions with agricultural entities to provide financial support for agricultural production processes based on traditional and non-traditional lending methods (Pyrig, 2004).

The main reasons for the difficulties that arise in the process of obtaining loans to farmers are the high risk of this type of business, low creditworthiness of enterprises, low quality and liquidity of pledges that companies can offer to commercial banks, and lack of mortgage lending in the industry Oliynyk-Dann, Levkovich, 2017). The specifics of lending to small agricultural enterprises is too complex, as such entities are not provided with a reliable pledge for loans and, as a rule, commercial banks do not have a credit history for such farmers (Bechko, et al., 2020). Until 2021, the development of the mechanism for lending to agricultural enterprises was slowed down by unresolved issues of the land market, which made it impossible to use land as a pledge for a loan. Relying on theoretical and methodological research, it is common to distinguish two groups of factors that give rise to the specifics of lending to farmers (Fig. 1).

Ukraine can increase the gross production of agricultural products with proper investment. One of the options for effective financing of agricultural production is its lending. And world practice is a confirmation of this.

In particular, in England and Germany, seasonal costs to farmers are covered by bank loans - about 50%, France - more than 40%, Italy and Belgium - more than 30%. In the European Union, 40% of agricultural producers are completely dependent on bank loans and only 25% of farms do without bank borrowing (Skrypnyk, Tkachenko, 2011). The situation in Ukraine is exceptional. In the structure of sources of financing of capital investments, the share of loans and other loans tends to decrease (Table 1). To study the dynamics and structure of capital investment in terms of economic activities and sources of funding, the official statistical information of the State Statistics Service of Ukraine for the last 10 years was used.

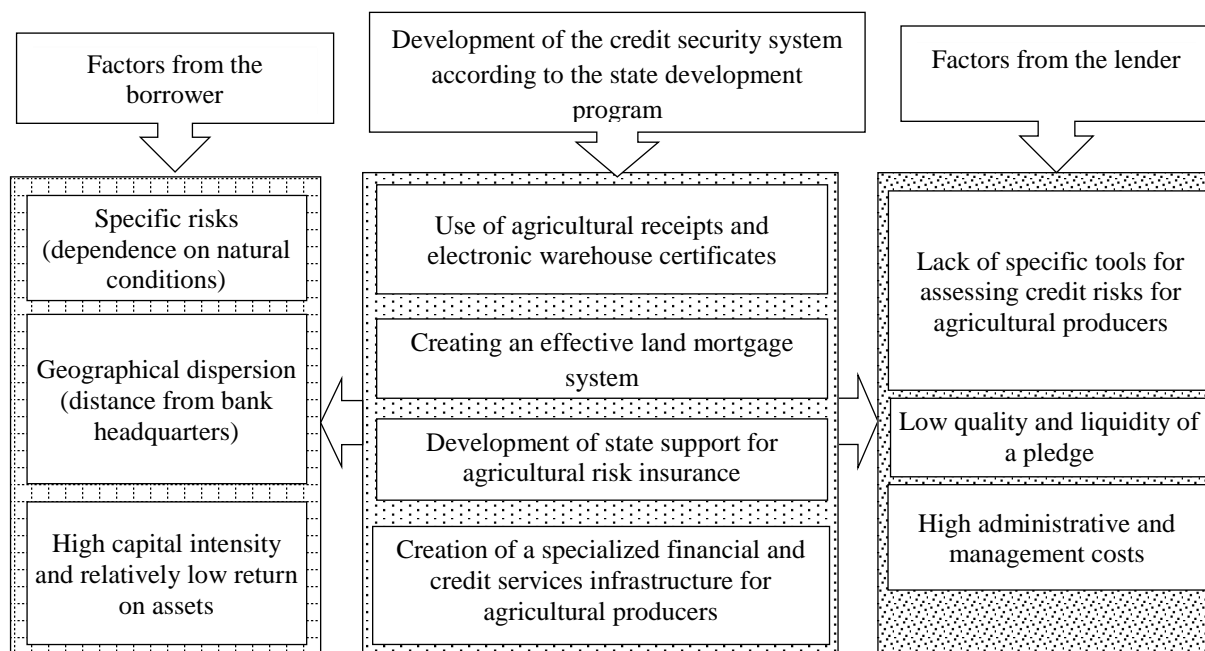


Figure 1. Specifics of lending to agricultural producers

Source: Vorotnykova I. P. *Conditions for forming the teacher's digital competency in the postgraduate education. Open educational e-environment of modern University. 2019. № 6. p. 103*

Table 1. Dynamics of capital investments in Ukraine for 2010-2020

Indexes	Year						Changes 2020 to 2010	
	2010	2012	2014	2016	2018	2020	+ / -	%
Capital investments, UAH billion	180,6	273,3	219,4	359,2	578,7	508,2	327,6	281,4
incl. bank loans and other loans, UAH billion	22,9	39,7	21,7	27,1	44,8	27,9	5,0	121,9
Share of credit funds in capital investments, %	12,7	14,5	9,9	7,5	7,7	5,5	-7,2	43,3

Source: compiled and calculated according to the data of State Statistics Service of Ukraine (*Capital investment...2021*).

Table 1 shows that the volume of capital investment in the country's economy for the period 2010-2020 increased by UAH 327.6 billion, ie 2.8 times. The sources of financing the investment are bank loans, but they increased by only UAH 5 billion or 1.2 times. The share of credit funds in total sources of investment financing is low. If in 2012 this figure was 14.5%, in 2020 only 5.5%. Note that in agriculture, in the structure of sources of financing capital investments, the share of credit resources is slightly higher than the average for the economy as a whole (Fig. 2).

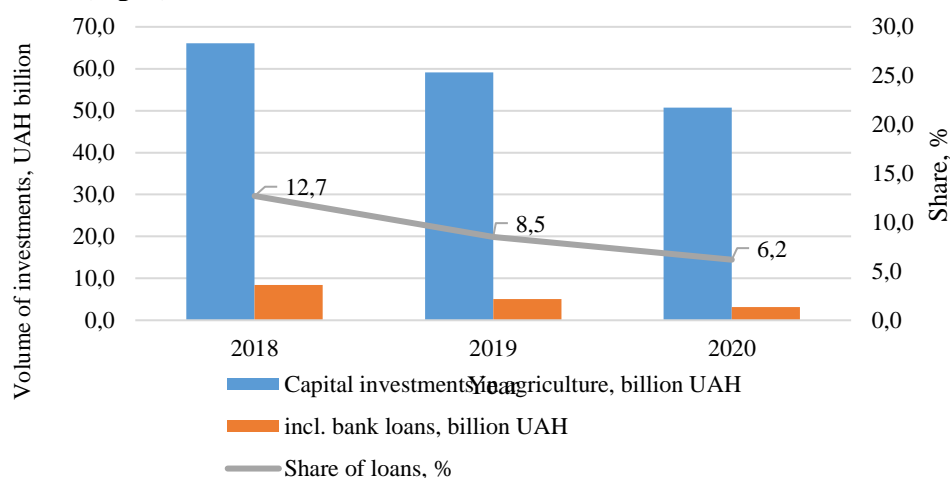


Fig. 2. Dynamics of capital investments in agriculture and the share of credit funds in their structure for 2010-2020.

Source: compiled and calculated according to the data of State Statistics Service of Ukraine (Capital investment...2021).

Thus, according to the results of 2018, 12.7% of capital investments in agriculture were formed at the expense of bank loans and other loans, in 2019 - 8.5%, and in 2020 - only 6.2%. The need to repay a significant amount of interest, short-term loans (up to one year), which does not coincide with the payback period of the project, the need for a positive credit history of the company is one of the disadvantages of this source of investment resources. However, bank and other loans remain the most affordable way to attract investment resources due to the speed of obtaining funds and the lack of influence on the distribution of property between business owners (Ignatiuk, Malakhova, Sukmanyuk, 2020).

According to the calculations, it is seen that in the period 2010-2020, the increase in gross value added in agriculture (468.3%) is significantly ahead of the growth of this indicator in the economy as a whole (362.3%). Therefore, it can be argued that agriculture was and remains a promising industry (Table 2).

Table 2. The share of agriculture in gross value added and in the loan portfolio of the banking system of Ukraine for 2010-2020

Indexes	Year						Changes 2020 to 2010	
	2010	2012	2014	2016	2018	2020	+ / -	%
Gross value added, billion UAH	992,2	1262,2	1382,7	2023,2	3017,0	3595,0	2602,8	362,3
incl. agriculture	82,9	113,2	161,1	279,7	360,8	388,4	305,5	468,3
Part of the agriculture in total gross value added	8,4	9,0	11,7	13,8	12,0	10,8	2,4	129,2
Loans to non-financial corporations, UAH billion	501,0	605,4	778,8	822,1	859,7	743,4	242,4	148,4
incl. agriculture	26,5	36,5	55,3	55,4	67,7	57,1	30,5	214,9
Part of the agricultural in the total loan portfolio	5,3	6,0	7,1	6,7	7,9	7,7	2,4	144,8

Source: compiled by the author according to the data of National Bank of Ukraine (Agriculture of Ukraine. Official site of the State Statistics Service of Ukraine 2021) and the State Statistics Service of Ukraine (Agriculture of Ukraine... 2021).

At the same time, in 2020, commercial banks of Ukraine lent UAH 743.4 billion to the real sector of the economy, of which only UAH 57.1 billion was received by agricultural producers, which means that only 7.7% of the loan portfolio of the banking system is currently transferred to the agricultural sector. During 2010-2020, there was a 2.1-fold increase in agricultural lending, but the share of agricultural lending in the total loan portfolio of non-financial corporations increased only 1.4 times. It should be noted that in 2020 the loan portfolio decreased for the first time in 10 years. This is partly due to the COVID-19 pandemic and the introduction of quarantine restrictions.

The overall reduction in lending in 2020 was mainly due to reduced lending to farmers. Under such conditions, banks apply a discriminatory mechanism in relation to agricultural enterprises by raising interest rates on loans compared to economic entities in other sectors of the national economy (Dadashev, Cheremisina, 2012). When lending, the size of the interest rate is essential. Statistics show that since 2012, interest rates on agricultural loans are higher than the weighted average interest rates on loans to other entities (Fig. 3).

According to Figure 3, the most expensive loans were in 2015 - interest rates on agricultural loans were 20.2%. Starting from 2018, a positive trend in the credit market appeared – average interest rates on loans reduced. This was due to lower NBU discount rate. Therefore, in 2020 the lowest interest rates on loans for the last 10 years were recorded. In particular, the agricultural sector is credited at 10.7% per annum.

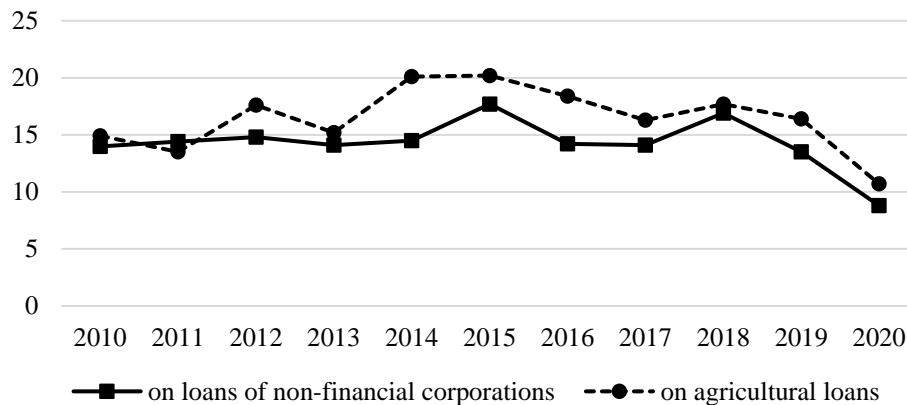


Fig. 3. Weighted average interest rates on loans, %

Source: based on official data of the National Bank of Ukraine (Financial sector statistics. Official site of the NBU, 2021).

A study by Ukrainian scientists O. Nepochatenko and R. Mudrak proved that “the reduction of the NBU discount rate did not affect the volume of bank loans to farmers. This indicates a lack of correlation between the reduction of the discount rate of the NBU and the growth of lending to agricultural enterprises in the market of credit services” (Bechko, et al., 2020).

Since 2000, Ukraine has re-introduced a system of soft loans for agro-industrial complex, which provides cheaper loans through a loan subsidy to compensate for part of the fee (interest) for the use of bank loans. Compensation is provided for targeted loans raised to cover production costs related to the purchase of fuel and lubricants, seeds, fertilizers, plant protection products, feed, raw materials and ingredients for the production of feed, veterinary drugs, young farm animals and poultry, equipment for livestock farms and complexes, spare parts for the repair of agricultural and irrigation machinery and equipment, energy, and payment for services related to the performance of repair work. This system operated until 2013, and during 2013 and 2014, soft loans were not provided. However, the Law of Ukraine "On the State Budget for 2015" system of preferential lending to the agro-industrial complex has started to function again (Oliynyk, 2014),.

O. Oliynyk-Dann notes that in some years the interest on loans in agriculture "was much higher than the level of profitability of agricultural production. Even the compensation of interest did not provide profitability of lending to agriculture. This shows that the compensation mechanism was not always effective"(Oliynyk-Dann, Levkovych, 2017).

In continuation of the study of the features of credit provision of agricultural enterprises, we studied the impact of lending on production volumes.

The data presented in Fig. 4 testify to the fact of a moderate relationship between the volume of value added of agriculture and the volume of loans.

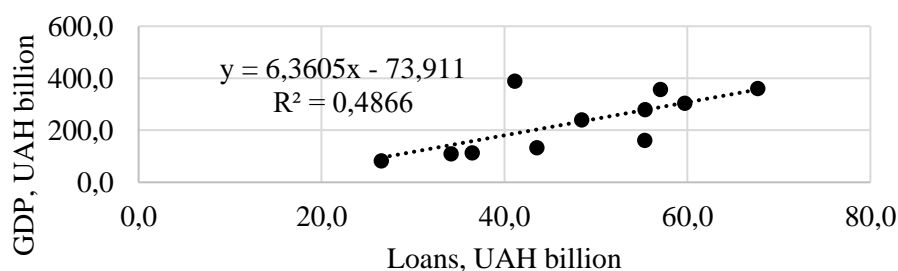


Fig. 4. Linear trend of dependence of gross value added on the volume of lending to agriculture
Source: own research.

According to the results of pairwise correlation, it was found that the value of the reliability of the approximation is 0.4866. This indicates a low degree of dependence of the volume of gross value added on the volume of bank lending to agriculture. A feature of agricultural production is the presence of a time lag associated with the production of agricultural products and proceeds from its sale. Under such conditions, it is advisable to build a model with a time lag and determine the reactions of producers in the current year to the volume of their lending in previous periods (Fig. 5).

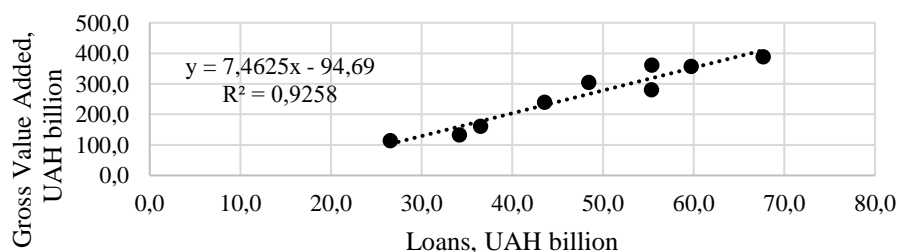


Fig. 5. Linear trend of dependence of gross value added on the volume of lending to agriculture with a time lag of 2 years
Source: own research.

The calculations showed that the impact of lending to agricultural enterprises on production volume has an optimal time lag of 2 years. It is established that the value of the reliability of the approximation with a time lag of 1 year is 0.8412, and with a time lag of 2 years - 0.9258. It can be argued that 92% of production depends on lending and only 8% on other factors.

Given the fact that agriculture accounts for 12.0 % of the country's GDP, and its share in the loan portfolio is only 7.9 %, there is a need to create favorable conditions for lending to farmers. Attracted loans with a targeted nature for investment in material and technical base or expansion of production will have a positive impact on the development of agriculture and the competitiveness of farmers.

The vast majority of investment loans are long-term. In this regard, we note that a positive moment for the development of the agricultural sector will be the growth of the share of long-term loans in the structure of the loan portfolio. Analysis of the structure of the agricultural loan portfolio in terms of 2010-2020 shows that lending to agricultural enterprises was cyclical (Table 3). In the period 2010-2020, the share of loans up to 1 year in the total loan portfolio was the largest in the range of 44-48%. Only in 2010 and 2016 in the structure of the loan portfolio the largest share was occupied by loans with a term of 1 to 5 years. The term of long-term loans is systematically low, only in 2016 and 2018 almost every fifth loan hryvnia was borrowed for more than 5 years. In 2020, there were signs of negative trends in long-term lending to agricultural producers, and the share of such loans was only 4.5% of the total loan portfolio.

Table 3. The structure of the loan portfolio of agriculture in Ukraine by terms, %

Loan term	Year						Change +/-	
	2 010	2 012	2 014	2 016	2 018	2 020	2020 to 2010	2020 to 2018
up to 1 year	32,5	45,2	45,1	44,2	36,3	48,9	16,4	12,6
from 1 year to 5 years	55,4	44,1	45,7	35,7	44,7	46,6	-8,8	1,9
more than 5 years	12,1	10,6	9,3	20,1	19,0	4,5	-7,6	-14,5
Total	100,0	100,0	100,0	100,0	100,0	100,0	x	x

Source: based on official data of the National Bank of Ukraine (Financial sector statistics. Official site of the NBU, 2021).

One of the main factors that has always restrained long-term lending for investment projects is the insufficient volume and imperfect structure of the resource base of banks, lack of long-term resources. Leading Ukrainian banks in the pre-crisis period had the opportunity to enter international financial markets and attract credit resources there for a period of three to eight years, but in modern conditions it is quite difficult. This state of affairs does not contribute to the development of expanded production, stimulating innovative entrepreneurship,

increasing the competitiveness of economic entities (Financial sector statistics. Official site of the NBU, 2021).

At the same time, there are changes in the strategy of banks' credit policy, which is that the focus in lending is gradually shifting from large companies and agricultural holdings to medium and small farms. This is due to the high level of competition among commercial banks in this market, which encourages bankers to change the vector in the direction of cooperation with the average agricultural business and expand the range of potential customers.

According to the information from the National Bank of Ukraine, as of the end of 2020, the largest creditors of agriculture in Ukraine are the bank with Austrian capital JSC "Raiffeisen Bank Aval" and banks with German, French and Polish capital. For example, in JSC PROCREDIT Bank the share of loans granted to agricultural enterprises has already exceeded 51% of the total loan portfolio of legal entities, and the bank's management states that it plans to continue to support the development of agricultural producers. All state-owned banks in Ukraine are included in the rating of the largest banks lending to agricultural producers (Table 4).

Table 4. Rating of the TOP-10 largest creditors of the agricultural sector of Ukraine as of the end of 2020

#	Bank	The owner of a significant share in the authorized capital	The amount of agricultural loans provided, UAH million	Volume of non-performing loans, UAH million	The share of provided agricultural loans in the loan portfolio of non-financial corporations	Share of non-performing agricultural loans
1	JSC Raiffeisen Bank Aval	Austria	13997,74	175,38	30,10	1,25
2	JSC PROCREDIT BANK	Germany	8362,66	318,66	51,29	3,81
3	JSC CB PrivatBank	State (Ukraine)	6200,16	3988,48	10,18	64,33
4	JSC Credit Agricole Bank	France	4370,74	169,31	17,10	3,87
5	JSC Oschadbank	State (Ukraine)	3469,01	1285,84	5,26	37,07
6	JSC OTP BANK	Hungary	3287,44	25,58	12,39	0,78
7	JSC Ukreximbank	State (Ukraine)	3212,76	200,76	5,27	6,25
8	JSC FUIB	Ukraine	2762,92	107,01	8,68	3,87
9	JSB UKRGASBANK	State (Ukraine)	2242,71	1017,67	5,72	45,38
10	JSC KREDOBANK	Польша	1654,80	82,70	14,82	5,00

Source: based on official data of the National Bank of Ukraine (Financial sector statistics. Official site of the NBU, 2021).

One of the main problems of state-owned banks in lending to agricultural enterprises is the high level of non-performing loans. Thus, the share of non-performing agricultural loans in JSC CB PrivatBank is 64.33%, in JSC Oschadbank - 37.02, in JSB UKRGASBANK - 45.38, while in other commercial banks it does not exceed 6.0%.

The main directions for stabilizing the mechanism of lending to agricultural enterprises in the credit services market are a set of measures by the state and the banking system aimed at developing an effective integration mechanism for cooperation with the agricultural sector of the economy; increase the amount of financial support for agricultural enterprises through the mechanism of cheaper loans; development and application of all possible sources for raising capital in lending to agriculture in the market of credit resources (Bechko, et al., 2020). The problem of lending to agricultural producers at the state level is solved mainly by introducing partial compensation from the state budget of interest rates on loans from commercial banks. However, this does not allow to comprehensively solve the problem of credit support of agricultural enterprises. The system of preferential crediting of agricultural producers introduced by the state, had certain shortcomings and therefore did not give the desired result and could not fully overcome the credit rationing (Oliynyk-Dann, Levkovych, 2017).

Providing farmers with bank loans is currently one of the unresolved problems at the state level due to the lack of a specialized Agrarian Bank in Ukraine with a share of loans for agriculture in the loan portfolio of more than 50% (Kalashnikov, 2010). Given the above and guided by the principles of agricultural policy of Ukraine, we believe that there are a number of problems in the agricultural sector, which should be addressed only by specialized banking institutions. Therefore, the coordination of the interests of specialized financial institutions, the state and the producers of agricultural products, as well as the mechanism of its provision is an extremely important issue of the Ukrainian scientific present time.

The mechanism of state regulation, control and supervision of specialized agricultural banks is substantiated in the given model (Fig. 6).

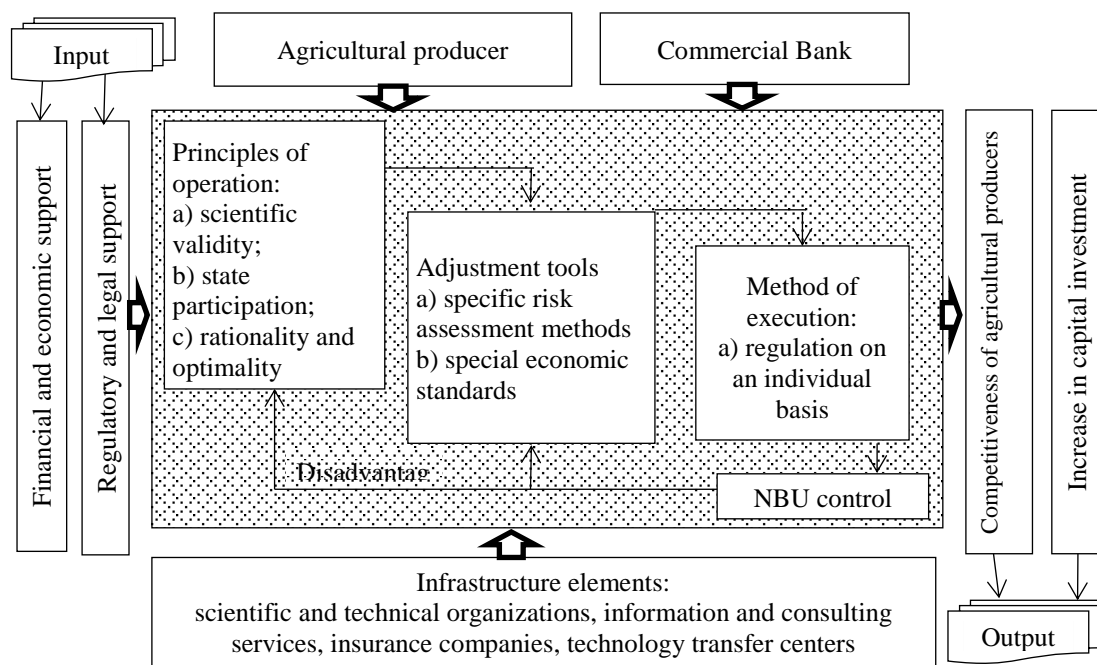


Fig. 6. Contextual model of organization of specialized agricultural banks in the banking system of Ukraine
Source: own research.

The activities of specialized agricultural banks should be carried out on the basis of general principles of banking (economic independence, transparency, efficiency, work within available resources) and while adhering to the special principles of operation - scientific validity and state participation.

The NBU's tools for regulating the activities of specialized banks should be built on an individual basis with the help of specially developed economic standards different from those currently in force. The results of the specialized bank can not be considered on a consolidated basis, as they contain a number of high risks. Therefore, we propose to develop specific methods of risk assessment depending on the specialization of banks.

Peculiarity of state regulation of specialized banks is to create an infrastructure that will ensure the rational organization of banking processes, including lending to farmers. We propose to draw the state's attention to the development of such institutions as: insurance companies, professional appraisers, real estate and development companies, notaries, scientific and technical organizations, research institutes, trading companies, information and consulting services, scientific and technical organizations, innovation funds, science and technology parks, technology transfer centers, etc..

Conclusions

One of the options for effective financing of agricultural production is its lending. But in the structure of sources of financing capital investments in agriculture, the share of loans and other loans is low and tends to decrease. Nationwide, there are a number of problems of credit security of the agricultural sector, which should be addressed only by specialized banking institutions.

The proposed model reveals the methodological principles of specialized banks, in particular, outlines the principles of their work, describes the components of infrastructure, tools for regulating their specific activities and reveals the features of coordination of state interests in ensuring the creation and operation of specialized banking institutions. Ensuring the implementation of the developed and proposed model of organization of specialized banks in Ukraine will contribute to the creation of a number of financial and credit institutions that will operate primarily for the implementation of state agricultural policy. The further development of the country's agricultural sector will depend on the prompt solution of the problem of credit support of agricultural enterprises.

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Abstract

The agricultural sector occupies a significant share in the Ukrainian economy, which is why the author analyzes the role of the bank credit market in providing agricultural enterprises with financial resources. Relying on theoretical and methodological research, two groups of factors have been singled out that generate the specifics of lending to farmers. The current state of capital investment financing through bank lending is presented. Interest rates on bank loans and volumes of lending to agricultural enterprises are considered. The rating of the largest creditors of the agricultural sector of Ukraine is formed. The dependence of gross value added on the volume of agricultural lending has been studied. The state regulation of specialized banks in order to create the most favorable conditions for lending to agricultural enterprises is substantiated.

Keywords: agriculture, capital investment, credit, lending, commercial bank, specialized bank.

JEL Classification: Q0,