

## Personal Over-indebtedness in Croatia and Measures for its Reduction\*

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**Abstract:** *The robust growth in household debt in pre-crisis period coincided with real growth in household disposable income, large economic expansion and a considerable fall in banks' interest rates. However, household debt indicators deteriorated markedly as total household debt grew faster than income. This raised concerns about potential implications of an additional increase in the debt burden on financial stability. An analysis of household debt based exclusively on data aggregated at the sector level is not a best financial vulnerability indicator as it fails to provide insight into the distribution of debt and credit risk by individual household groups. The text explains the problems with personal over-indebtedness in Croatia and measures for their reduction.*

**Keywords:** personal finance, over-indebtedness, financial literacy, Croatia

**JEL Classification:** G33, H31, I32

### Introduction

Croatia faces a wider range of social challenges than those of most other post-socialist states because in a relatively short time span of less than 25 years because the country has undergone a 'triple transition' from a single party system to a pluralist democracy, from a planned to a free market economy and from war to peace. Croatia also has to cope with the consequences of the transition recession, with economic restructuring and privatisation. Household debt is a relatively new phenomenon for Croatians society caused mostly by the combination of high economic growth before the economic crisis in 2008, occurrence of mass-consumption society and the fast

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liberalization of financial market related activities. The main actors in the phenomenon under investigation are credit institutions (particularly commercial banks with mortgage credits in Swiss Francs) and citizens trying to finance more and more actively different aspects of their life strategies and consumer needs on the other.

Due to the insufficient financial literacy and consumers' hunger for various goods and services that is inadequate to the national economic development and personal income capacity, a significant number of citizens are in an unfavourable social position because they have significant over-indebtedness problems. It is important to emphasise that Croatian citizens have a lack of experience in dealing with and using financial products in a liberalized market and that access to credit modified their economic behaviour.

Over-indebtedness has serious consequences on the health of people affected because it endangers their psychological stability and causes the feeling of crisis, anxiousness, fear, frustration and stress. Over-indebted persons often have worse health conditions; they suffer from continuous feelings of exhaustion, and endure more physical pain in comparison to the total population. Because of the aggravated health condition of individuals affected, significant social costs arise which can be classified in direct terms (the medical treatment, recuperating in hospital, medicines etc.) and indirect costs (reduction of productivity, absence because of the sick leave, the costs of long-lasting medical treatment, rehabilitation and the early retirement of affected individuals). There are also further social costs, such as increased probabilities of criminal behaviour, or children dropping-out of education. Thus, because of over-indebtedness and low levels of education poverty can be transferred to new generations.

Because of the economic recession, increased unemployment and budget problems, there has been a further deterioration of over-indebtedness, which causes further problems with social exclusion and marginalisation. Following this short introduction, the second section is dedicated to the situation of over-indebtedness in the last 10 years. The third part comprises of a discussion surrounding the problems with over-indebtedness, their causes and the realised activities for improvement. The final section comprises of conclusions and recommendations.

### **Situation with Over-indebtedness**

In this part of the text the trends of over-indebtedness and its consequences in approximately the last 10 years are explained. According to the Croatian Central Bank estimation, the credit indebtedness of the population in Croatia increased from 32.1% of GDP at the end of 2004 to 35.9% at the end of 2005 and around 40.6% at the end of 2006. Debt to banks remained the most dominant debt category, accounting for about 95% of total household debt for several years. In 2006 and 2007, this was supported by the continued surge in supply of increasingly cheaper bank loans, partic-

ularly those denominated in Swiss francs. The slowdown in household debt growth put a stop to the increase in the household debt level in late 2008 and during the whole 2009. At the same time, the currency and interest rate exposure of households increased further. Also, unfavourable labour market trends seriously eroded households' capacity to service their credit obligations regularly. The annual growth rate of household debt, which stayed relatively high in 2008 due to the base effect of its mid-year increase, dropped to 7.3% in March 2009, a quarter less than at end-2008 (the Croatian Central Bank, 2009).

In the last quarter of 2008, banks relied more heavily on external foreign currency funding and redirected household savings in the domestic currency (kuna or HRK, 7.6 HRK is 1 €) to foreign currency deposits, which reversed the upward trend in the share of the domestic currency loans in total loans. However, slower lending to households early in the year also slowed down the substitution of HRK loans for loans denominated in or indexed to foreign currencies. In March 2009, 68.3% of total household loans were denominated in foreign currencies, which is still less than in previous years. Nearly 97% of total household loans were issued at interest rates variable within a year, which shows that the interest rate risk exposure of the household sector is significant. In terms of maturity, most household loans are long-term. However, since most of these loans are also indexed to foreign currencies and contracted at variable interest rates, the currency and interest rate risk exposure of households stayed rather high in 2008 and with a tendency to increase.

Following an improvement of household indebtedness indicators in 2009, the situation deteriorated in 2010 as a result of a higher exchange rate of the Swiss Franc and a drop in family income. A slight growth of income influenced the improvement of household indebtedness indicators in 2011, although the number of vulnerable households continued to grow due to the expected continuance of a reduced employment trend. Households reacted to the financial crisis by a negative revision of expectations concerning future salaries and other incomes, resulting in lower personal consumption and lower needs for indebtedness. Since mid-2009, households have constantly been trying to lower their indebtedness, although their debt in 2010 increased nominally due to higher exchange rate of the Swiss Franc, because one third of all bank loans to households were granted in this currency. So, following a decrease of indebtedness of HRK 3.8 billion (-2.7%) in 2009, the total debt of households at the end of September 2010 reached the level that existed in mid-2009, by annual increase for HRK 1.4 billion (1.0%).

The debt of the household sector during 2011 stagnated. Mild nominal growth of household debt is mainly a consequence of the depreciation of the HRK exchange rate against CHF and EUR. The amount of household debt was adjusted with regard to the influence of exchange rate changes so it stagnated at the previous year level. At the same time, a mild intensification of new debt was noted, primarily in the segment of newly granted long-term loans, while the amount of newly granted short-term loans continued to decline. This increase in the share of long-term loans in the total

amount of newly granted loans was encouraged by the decrease in interest rates on these loans during 2011, as well as the slowing down of negative trends in the labour market (Croatian National Bank, 2012).

The process of decreasing indebtedness intensified during 2012, so the household debt until the end of September dropped below the level of 40% of GDP (Croatian National Bank, 2013). Reduced indebtedness was primarily reflected in lower exposure towards banks (-0.8% GDP) while the household debt towards other financial operators, which accounted for 4% of the overall debt, was relatively stable. The annual rate of growth of the total household debt in late September 2012 was -2.0%, that is, -1.5% if we exclude the impact of mild appreciation of HRK during the third trimester.

In 2013 households continued to increase their savings in banks and housing savings banks (by average 4.1%), which considerably contributed to the rise in their overall liquid financial assets, so the ratio of debt to these household savings categories, which had been declining for years, additionally improved by the end of September 2013. The gradual slowdown in the growth in nominal household disposable income, which started at the end of 2011, primarily under the impact of rising unemployment, reversed to a drop in the third quarter of 2013, and thus the ratio of debt to household disposable income slightly increased at the end of September. The slight increase in newly-granted long-term loans in late 2013 was due largely to the increase in the amount of other long-term loans, whose share in the total amount of new loans has been continuously growing since late 2008. For this reason, these loans became the dominant type of new long-term loans to households towards the end of 2013 and at the beginning of 2014, accounting for almost 70%. Nevertheless, their total stock in late 2013 decreased for the first time since the beginning of the economic crisis, which suggests that the dynamics of new lending is insufficient to offset the repayment and write-off of existing debts.

Weak household demand for loans largely reflects the permanent uncertainty and problems in the labour market that causes the low level of consumer optimism and the tightening of lending standards of banks in late 2013 and early 2014 related to the interest rate limitations embodied in the Consumer Credit Act. At the same time the coverage of the currently declining amount of interest paid by disposable income slightly improved, and further decrease in the interest paid burden may be seen in 2014. According to the Croatian National Bank (2015), the sharp appreciation of the Swiss franc increased the household sector debt in the first quarter of 2015. However, the fixing of the CHF/HRK exchange rate at the level it had stood prior to the impact neutralised the short-term effects on the debt repayment burden of some households, transferring the entire burden to the banking sector. Although this event had no significant impact on systemic risk, the approaches to its resolution may have. For this reason, caution is needed. The expected further stagnation of employment and the continuously high exposure to exchange rate and interest rate risks remain a threat,

which may, in the event of a more severe shock, make debt repayment difficult for some households.

Since 2003, household debt in Croatia has been rapidly increasing, but it started to decrease in the last few years. As seen in Table 1, by year-end 2006 household debt had risen to represent 35% of GDP and 96% of gross disposable income. By the end of 2008, loans to households had grown to 53% of all bank lending. The mentioned share constantly decreased reaching 44.4% in 2013, while the strong annual growth changed direction and stagnation in annual growth of household debt was apparent in Croatia in the last few years.

Table 1: Household Debt in Croatia, 2003-2013

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Household Debt in Billion HRK	57.1	67.9	81.6	99.7	118.5	131.5	128.0	131.9	133.2	131.4	129.0
as % of GDP	25.0	27.4	30.6	34.3	37.2	38.3	39.0	40.7	40.5	40.0	39.3
as % of gross disposable income	50.4	56.1	64.3	72.2	79.4	82.4	78.2	81.9	81.3	79.3	78.2
Annual growth (%)	27.7	18.8	20.2	22.2	18.9	10.9	-2.6	3.0	1.0	-1.4	-1.8
Household loans as % of total bank loans	48.4	50.8	50.8	50.6	52.7	51.7	49.2	47.4	45.2	45.6	44.4

Source: Croatian National Bank and HANFA.

## Problems with Over-indebtedness, their Causes and Realised Activities for Improvement

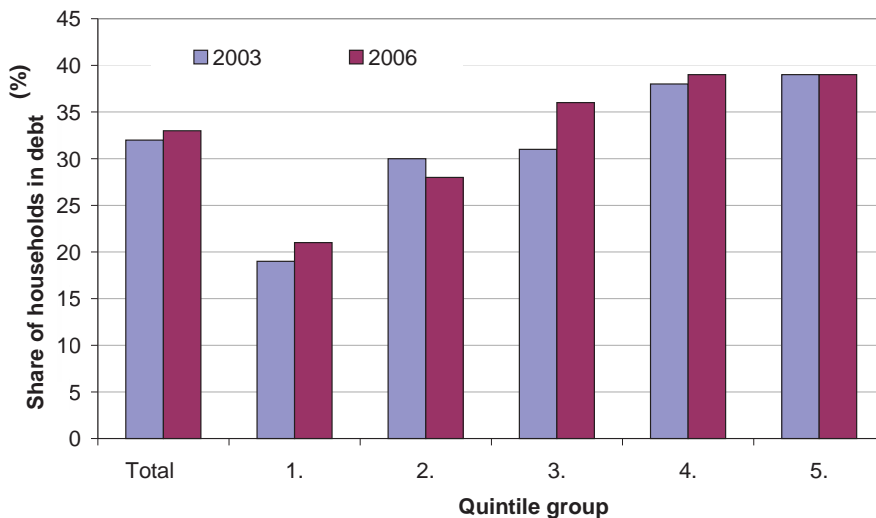
### *Over-indebtedness as a Factor of Social Exclusion*

Households with the lowest disposable income per household member are usually the most vulnerable among indebted households. The analysis of Household Budget Survey (HBS) data shows that the percentage of indebted households in the lowest (and thus riskiest) income brackets was relatively small and steadily decreased in the period between 2005 and 2008. The share of total household debt held by households in the three lowest income brackets also decreased. The financial margin, i.e. income available after subtracting the amount of annual loan payments and the at-risk-of-poverty threshold, is another useful instrument to identify potentially vulnerable households. In terms of this concept, 15.9% of all indebted households were vulnerable at the end of 2008. At the same time, the debt held by vulnerable households accounted for 14.3% of this sector's total debt. This was less than in previous years, however, that the tendency for this proportion to reduce visibly slowed down. A decline in banks' exposure to risky households corresponded relatively well with the dynamics of bad household loans in the observed period.

Although the percentage of indebted households in the lowest income groups was relatively small, relative indicators show that their debt and loan repayment burdens are significant. Nevertheless, this does not represent a significant risk for banks as the share of these households in total sector debt is relatively small. The total percentage of vulnerable households at the sector level held steady at a relatively high level of around 18% in the reference period since 2006. Total debt held by potentially vulnerable households, which could not be regularly serviced in case of certain macroeconomic shocks, presents a potential loss for the banking sector (exposure at default, EAD). The greatest exposure at default arises from loans granted to households in the lowest income brackets while, as expected, it decreases with the rise in disposable income. In the period 2005-2007, on average, 15.3% of total household loans were risky according to this criterion. Notwithstanding a slight downward trend in the share of risky loans in total loans, banks' exposure to credit risk stayed relatively high. A combination of criteria of the financial margin and the ratio of loan payment to household disposable income shows that on average 6.9% of indebted households were vulnerable in the same mentioned period. At the same time, their debt accounted, on average, for a significant 9.7% of total household debt.

The analysis showed that during the period of rapid credit growth banks pursued prudent credit policies and granted most loans to young educated individuals whose disposable income had good growth prospects. The 2005-2007 growth in total household debt led to a slight increase in the share of vulnerable households in the total

Picture 1: Household debt according to quintile groups



Source: Bejaković, Mastela Bužan, Urban (2008) using the Household Budget Survey.

number of indebted households. However, the banks' exposure at default associated with loans granted to vulnerable households slightly decreased during the reference period though its level stayed relatively high. According to the data by HBS more in debt are higher quintile groups (Picture 1).

Croatian research on household debt is scant and one rare piece is by Bejaković, Mastela Bužan and Urban (2008). According to data by the Household Budget Survey, the authors conclude that one third of households (about 470,000) have debt, and this proportion did not change between 2003 and 2006. However, the share of households with mortgage loans increased from 9 to 14% and the share of households with other loans decreased from 27 to 23%. Approximately 3% of households have housing and other loans. The average number of loans per household is 1.4 which has not changed in the observed period. Approximately 3% of households have three or more credits. Using the Household Budget Survey, Sugawara and Zalduendo (2011) find that very few households in Croatia are at risk as a result of the shocks experienced over the past few years. They state that new vulnerable households represent about 2 percent of all households, 6 percent of households are with debt and 2–3 percent of aggregate banking system assets. The low levels of vulnerable households, as well as the low levels of debt incidence, suggest that household debt is unlikely to become a drag on aggregate economic activity and that financial stability risks remain manageable.

According to research carried out by GfK Hrvatska (2013), one in five citizens had financial losses and problems with debt repayment. The pains of debt, of those who felt them, are mostly connected with excessive personal consumption; one in three citizens says that his/her household is over-indebted, that is, has visible problems with debt repayment and timely payments, and that the living standard deteriorated. Around 10% of citizens hold that there is no solution for their over-indebtedness. As mentioned, household deleveraging continued in 2013, and in view of the expected, weak economic recovery, high structural unemployment and low optimism level, this trend continued in 2014. Although the regulation reduced interest burden will in the short-term make it easier for some households to repay their loans, due to the increased exposure to interest rate changes in the middle term, the vulnerability of this sector has increased additionally. The modern concept of social exclusion clearly accepts that over-indebtedness is one of the most important reasons for social exclusion. Thus, it is necessary to analyse possible causes of over-indebtedness.

### *Causes of Over-indebtedness*

Several issues might be presented as causes for over-indebtedness, ranging from predatory lending and insufficient and/or weak consumer protection to irresponsible personal finance practices caused by widespread consumerism and/or a lack of financial literacy. Overall the largely privately-owned banking sector has remained

generally sound, amid a rapid credit expansion there are still cases of predatory lending. Around 95% of banks are privately owned and the share of foreign ownership has remained high at 91%.

Untill relatively recently, Croatian citizens did not have a full supply of goods and services on the market because the former economy was relatively closed and with high tariffs that protected the domestic often obsolete and low quality production. Market economy brought a completely new range of products and services that most citizens have seen directly only for the first time and one should not be surprised that they want to have all benefits of the new age regardless of their available income. Having in mind the relatively easy access to bank loans under relatively favourable repayments period and low interest rates in the circumstances of strong GDP growth in the period 1999-2008 (with average rate of above 4%), it should be understandable that many citizens were taking credits that they were not going to be able to repay because GDP began to fall and unemployment increased.

One should not neglect the importance of financial literacy. It comprises the understanding of the fundamental elements of the financial world, including key financial concepts as well as the purpose and basic features of financial products. Financial literacy is viewed as an expanding set of knowledge, skills and strategies, which individuals build on throughout their life. It involves more than the reproduction of accumulated knowledge, although measuring prior financial knowledge is an important element in the assessment. This also includes risks that may threaten financial well-being as well as insurance policies and pensions. It can be assumed that Croatian citizens are beginning to acquire this knowledge and gain experience of the financial environment that they and their families inhabit and the main risks they face. It also involves a mobilisation of cognitive and practical skills, and other resources such as attitudes, motivation and values. Financial literacy is a combination of awareness, knowledge, skills, attitude and behaviour needed for making appropriate financial decisions which are necessary for achieving final individual well-being. Financial literacy implicates individual responsibility for the successful management of revenues and expenditure.

It can be assumed that in the past financial literacy was not so important because there was relative economic independence of national states, most of the people had full-time employment usually with a single employer; there was limited international mobility, there was a stable family unit nucleus with the traditional relationship between a man who earned and a woman who cared within the family obligations. Also, one should not neglect the importance of relatively simple financial products and high confidence in financial institutions. Although there were only a few surveys of financial literacy in Croatia (World Bank, 2010a, 2010b; Vehovec, 2012) one can assess with high probability that it is unsatisfactory. Škreblić Kirbiš, Tomić and Vehovec (2011) analysed pension literacy as a proxy for financial literacy and concluded that 21 percent of interviewed persons were completely pension illiterate while 32% were fully pension literate. Education on financial literacy must include



as many residents, especially those younger, through a broad range of information channels.

A common explanation focuses on the lack of adequate practices and tools for financial suppliers to obtain information from consumers and to assess their repayment capacity. The need for consumer protection arises from an imbalance of power, information and resources between consumers and their financial service providers, placing consumers at a disadvantage. Financial institutions know their products very well but individual retail consumers may find it difficult or costly to obtain sufficient information on their financial purchases. Information may also be too technical or complex for the average consumer to understand and assess.

One should not blame only the citizens for their financial recklessness because there is also a significant impact of economic trends and changes in the labour market. After a significant growth of economic activities in the period 1999 – 2007 with the average annual growth of gross domestic product (GDP) over 4 percent, in 2008 economic activity started decelerating as a consequence of the global economic crisis. Real GDP growth slowed to 2.1 percent while GDP growth was even negative in 2009 (-6 percent) and in 2010 (-1.2 percent). 2011 brought with it a zero growth rate of GDP, which points to the economic stagnation trends. Negative trends even accentuated in 2012 (GDP fall for 1.9 percent) with slight improvement in 2013 (GDP fall for 1.0 percent). Non-existence of the GDP growth rate had an adverse effect on the salaries of workers and on the situation in the labour market, primarily increasing unemployment and decreasing (or at least stagnation) in wages and salaries. Due to adverse labour market trends, the number of unemployed increased from 236 thousand in 2008 to 285 thousand at the end of 2015, while according to the Labour Force Survey, the unemployment rate simultaneously increased from 8.3 to 15.4 percent.

### *Realised Activities for Improvement*

The Review by the World Bank (2010) has found that the quality of consumer protection in financial services in Croatia has improved in recent years. In particular, the adoption of the 2007 Consumer Protection Act incorporated many of the EU Directives related to financial consumer protection. In addition, the National Council on Consumer Protection was established in 2008 to advise the Government on its national strategy for consumer protection in the coming years. The Ministry of Economy, Labour and Entrepreneurship (later Ministry of Economy) prepared the national plan and strategy on consumer protection for all fields, including financial services. The Ministry established the Central Consumer Protection Information System (CISZP), as a central register of complaints related to consumer services and programs. The Ministry also funds four regional Consumer Counselling Centres run by non-government organizations.

One of the important factors that have a direct influence on the level of indebtedness is the existence or lack of the credit registry. In an economy in which the value of credit information index is null, because a country does not have an adequate and efficient credit bureau, the potential for over-indebtedness is large. Users have the possibility to ask for credit lines from a larger number of creditors who, in the absence of a credit bureau are not able to assess the lending risk. This can lead to an over-indebted population and increase loan defaults. Simovic et al (2011) believe that Croatia is embedded in the mentioned situation because the bureau started effective operations in 2007 by which time the level of indebtedness of the population had reached a high level. It was in autumn 2003 and in 2004 that twenty Croatian banks signed a contract for the founding of the Croatian Registry of Credit Obligations (*Hrvatski registar obveza po kreditima* - HROK). After obtaining approval of the Croatian National Bank in January 2005, HROK was registered as an enterprise for business services and significantly prevented further problems with over-indebtedness.

With the aim of improving the situation, the magazine *World of Insurance (Svijet Osiguranja)* and the association *Living in the Plus (Život u plusu)*, held a round table entitled *Financial Literacy in Croatia* concerning the topic: "How to maintain financial stability of Croatian families." Croatian experts representing the academic community, the Croatian Insurance Office, insurance companies, trade unions, various civil associations, associations for consumer protection, expressed their views and measures for improving the culture of saving and not spending, and the awareness of the importance of personal finances management.

The Croatian Banking Association (*Hrvatska udruga banaka* - HUB) and its member banks have long warned of the current account overdraft as one of the most expensive types of loans. It should only be used for bridging monthly household budget gaps until the salary or another income is paid into the client's account. The financial literacy of citizens seems to be rather poor, as citizens are inadequately informed about the rights and obligations in dealing with banks and other financial institutions. Within its Personal Finance Management project entitled "How to Harmonize Income and Costs?" (free of charge workshops for citizens launched in 2006 and still available on its website [www.hub.hr](http://www.hub.hr)), the HUB and its member banks have informed the participants that it is generally more favourable to take on some other type of credit and to repay a "persistent" overdraft.

The Ministry of Justice considered several models of the personal bankruptcy, but agreed on the fact that the borrower will not have to pay the costs of bankruptcy. A long-awaited Law on Personal Bankruptcy came on the force from the beginning of 2016, so it is too early to estimate its possible success and impact. When a citizen is allowed to declare personal bankruptcy, or to enter into bankruptcy, he or she has time to pay off the debt and continue to live a somewhat normal way. The basic idea behind the Law is to assign to a person in a personal bankruptcy a bankruptcy trustee

who has complete control over all of his or her expenses, income and assets. As a part of the debt repayment plan a possible amnesty portion of the debt is negotiated, and when the person passes these years of living with a tightened belt, debts would just have to be forgotten so that the person could continue to live normally. The legislator precisely determined in which cases the natural person-consumers is considered insolvent or unable to pay. This is a situation where the consumer for a period of 90 days, or three months in continuity, is unable to pay his or her financial obligations or just one liability, which exceeds the amount of HRK 30,000 (€ 3,920).

As the private over-indebtedness is an important factor of psycho-sociological problems in Croatia, the Government of Croatia wanted to help those mostly in need. Thus, it adopted the Decision on measures aimed at alleviating financial problems of citizens who are debtors in procedures of enforced collection of small value claims against cash assets. The aim of implementing the measures of debt write-off and enforcement suspension was to provide a fresh start to financially excluded citizens and provide them with conditions to resolve insolvency. The debt write-off is possible as the Government has reached a voluntary agreement with telecom operators, big cities, banks and public companies. All of them demonstrated social responsibility and social sensitivity for the difficult situation of citizens who are often not to blame for the difficult situation they are in because of many years of economic crisis. For the purpose of effective implementation of measures, the Ministry of Social Policy and Youth, as the proponent of the aforementioned Agreement, adopted the Rules of Procedure in the implementation of the Agreement on measures aimed at alleviating financial problems of a certain number of citizens who are debtors in procedures of enforced collection of small value claims against cash assets. It was expected that the mentioned temporary and one-off measure which was in force until 30th June 2015 should cover around 60,000 over-indebted citizens and their families. Unexpectedly, the interest was very low so only around 6,500 people fulfilled the required preconditions for the debt write-off. Such measures can be criticized as they impede private contracts, damage the rule of law, induce moral hazard and undermine credit discipline, which creates negative incentives for private households to continue to run up excessive debt (Liu and Rosenberg 2013).

In early January 2016, the Institute of Financial Education - Štedopis in cooperation with the Association of Croatian high school students organized two workshops named "Winter School of Financial Literacy". Some of the most important topics from the field of personal finance and responsible consumption were presented in a very interesting and interactive way to high school students. The workshops were held by Dajana Barbić and Andrea Razum from the Faculty of Economics and Business, University of Zagreb. Each of them was focused on her own area of specialization: Dajana in successfulness in managing personal finances and Andrea in sustainable marketing.

Finally, the Faculty of Economics and Business in Zagreb is currently providing financial literacy training aimed at students of the University of Zagreb. The workshops named “FLiP - Financial Literacy in Practice” are organized in four modules, covering various topics from the field of personal finances.

## Conclusions and Recommendations

Household indebtedness is a serious private and social problem, especially from the perspective of social exclusion. Should over-indebted households not be able to meet their liabilities due to altered macroeconomic conditions (e.g. an interest rate hike, unemployment growth or diminishing income), this might lead to a financial crisis.

There is a need to develop and/or improve consumer protection measures. Of particular importance are disclosure guidelines for product terms and pricing. Furthermore, there is a need to promote further financial literacy training so that individuals can make better informed decisions about the products and services they use. Any financial education and literacy program will need to cover three areas: (1) consumer awareness of the risks and rewards of various financial products, including possible financial scams; (2) consumer education in preparing personal and household budgets and making long-term financial decisions; and (3) surveys of financial literacy to understand which parts of the population may be particularly vulnerable to predatory lending, financial scams and weaknesses in budgeting and planning.

A well-designed programme to strengthen consumer protection and financial literacy can help reduce the imbalances of power and information between consumers and financial institutions. There is an obvious need to ensure an efficient flow of information provided by financial suppliers to consumers. In that way clients are empowered to make informed financial decisions that would meet their needs and benefit them in the long run. In Croatia, consumers are not fully aware of all applicable administrative charges and/or were not warned about their responsibilities as co-debtors and ended up having to pay the debt of friends or relatives. Furthermore, there are no consumer bankruptcy procedures which provide for an exemption from residual debt.

The Government and its bodies can:

- Help in organising education professionals to provide free of charge, independent and reliable services on financial planning and providing advices to help citizens who have fallen into financial problems and who do not possess enough knowledge to cope with the complex range of financial products.
- Organise and conduct programmes of financial literacy for citizens and a public campaign to raise awareness about the dangers of reckless borrowing.
- Work systematically and/or help with consumer education and enforcement actions to improve public awareness - many debtors manage their financial assets

with insufficient attention and easily find themselves again into financial difficulties.

- To organise and/or assist in organising the provision of independent, free and confidential counselling services to target groups that have immediate difficulty repaying a debt.
- Consider the possibility of introducing the subject of personal finances management in the curriculum of primary and secondary schools.
- Assist target groups in developing the knowledge and skills necessary to exit and avoid re-entry into insolvency, as well as knowledge of effective ways of solving debt problems.
- Encourage the involvement of target groups in the planning and implementation of activities of advisory bodies to ensure effective fulfilment of their needs, and to ensure that the target groups have equal access to and availability of advisory bodies, regardless of geographic location.

From the standpoint of the Government, additional measures need to be implemented to prevent households from falling into over-indebtedness. The main drivers behind debt accumulation over the last decade were loose credit conditions and uninformed customers. Therefore, guidelines for banks with regard to the kind of information about possible risks that is provided to customers (particularly when dealing with foreign currency loans), as well as debt counselling and financial education for individuals should be established and fostered to prevent severe household debt.

Nobody is pleased to be in an adverse financial situation, but delaying actions will not alleviate the problems. There is no general recipe for solving problems, but there are rules that might improve the situation. The first rule is to live in accordance with one's material resources and possibilities. The attention should be directed to exiting from the difficult situation. Indebted people often feel isolated, which can easily lead to depression and disruption of mental health. It is quite obvious that many people do not know what or whom to ask for advice and help because they are not informed. Education and information, and an active attitude in solving this problem are the most important factors that should be taken as early as possible in order to master the knowledge and skills in management of personal finances and avoidance of over-indebtedness.

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