

PRIVATE OVER-INDEBTEDNES IN SELECTED CENTRAL AND EASTERN EUROPE COUNTRIES

Predrag Bejaković¹ and Željko Mrnjavac²

¹ *Institute of Public Finance, Zagreb, Smiciklasova 21, Croatia, predrag@ijf.hr*

² *Faculty of Economy, University of Split, Cvite Fiskovića 5, 21000 Split, mrnjavac@efst.hr*

ABSTRACT

The private indebtedness comprised of both households' and non-financial corporations' debt levels, is a significant factor of social exclusion and it attracts considerable public interest. This is partially caused by insufficient financial literacy of the population but also with an increased demand for new products and services that often exceeds personal financial capabilities of majority of people. A main difference among economies in Central and South East Europe is the housing credit which was facilitated in many of them by state-subsidised financing schemes, denominated in some cases in foreign currencies, particularly Swiss Francs. The article explains the situation and encompasses the selected Central and Eastern Europe Countries where adequate surveys have been performed: Bulgaria, Bosnia and Herzegovina, Croatia, Czech Republic, Hungary and Poland. 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. Although there are significant variations between mentioned countries, there are some similar causes and possible solution for amelioration of the situation.

KEY WORDS

Over-indebtedness, personal finance, financial literacy, Central, Eastern Europe Countries

JEL CLASSIFICATION CODES

D14, D22, G33, H31

1. INTRODUCTION

The growing interest in over-indebtedness in Central and South East Europe (CSEE) is in part a response to the upsurge in personal debt and the concern that the combination of rising unemployment, falling household income and the ruin of housing bubble, could lead to an increasing number of households being unable to repay their debts. While there was a significant expansion in credit and in financial services during the boom period, the various analysis and surveys show that at the end of the boom in 2008, many households in CSEE did not possess adequate financial literacy. No doubt that private indebtedness impacts considerably on households' behavior. Whereas the financial deepening in the majority of old member states of the European Union (EU) is based on a long experience on behalf of financial institutions and consumers of their services as well, in the new EU members this process exceeds the average financial literacy in most of the countries where consumers' demand for new products and services often outpaces the financial resources available and disregards the expected incomes (Georgiev and Zagorski, 2014).

A common European operational definition of household over-indebtedness does not exist. According to Gloukoviezzoff (2007) conventional definitions of over-indebtedness state is the inability of people to meet their household's obligations (i.e. to pay their households bills including rent and mortgage) and meet the repayments on any consumer credit they have arrears or the use of administrative procedures such as consumer insolvency proceedings. European Commission (2013) composed a specific definition was for the study where households are considered over-indebted if they are having recurrent difficulties meeting (or falling behind) with their commitments, whether these relate to servicing secured or unsecured borrowing or to payment of rent, utility or other household bills.

Due to the lack of common definition of the phenomenon, it is difficult to assess the exact number of over-indebted people but no doubt it is significant and increasing. Over-indebtedness is a heterogeneous problem.

Among the working poor and long-term unemployed, it usually caused by accumulated missed payments on utility and phone bills, and on rent. The economic crisis, with many lay-offs and reduced social benefits, has enlarged this group with debt problems. However, much of the increase in over-indebtedness is caused by another group: people who were in well-paid employment, lost their jobs and are now left with large mortgages on their houses without the prospect of increasing their income anytime soon. Between these groups and within them, there is great heterogeneity in the causes and consequences of over-indebtedness. Among causes, one can mention predatory lending, insufficient and weak consumer protection, irresponsible personal finance practices caused by widespread consumerism, a lack of financial literacy. Over-indebtedness has serious consequences on the health of people affected because it endangers their psychological stability and causes the feeling of 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, convalescing 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 children dropping-out of education, lowered productivity and increased or of criminal behaviour. Thus, because of over-indebtedness and low levels of education poverty can be transferred to new generations.

Data on indebtedness and financial difficulties among EU households from 2011 in general allows grouping households in CSEE in various sections according to the level of household arrears (very high, high, moderate and low). Croatia is not included since it was not an EU member then. The first section involves Romania, Hungary and Bulgaria followed by Slovenia and Poland in the second group and the Czech Republic and Slovakia in the third one. According to data from the European Central Bank (ECB), in the first group the share of households with level of household arrears and households' inability to make end meets is very high above, 21% and 36% respectively. The situation is little bit better in Slovenia and Poland where mentioned shares are high and over EU average, 11% and 26% respectively. The situation regarding level of household arrears is relatively positive (below EU average) in Czech Republic and Slovakia, but still in these two countries there is a high percentage of households that were unable to make end meet. In Bulgaria and Hungary the household debt declines compared to the disposable income in the recent years, in all other countries the trend is the opposite (European Commission, 2013).

2. SITUATION IN OBSERVED COUNTRIES REGARDING PRIVATE OVER-INDEBTEDNESS

Bosnia and Herzegovina (B&H) - Microfinance has been a lifeline for many in B&H playing a critical role in helping people - particularly women - recover from the conflict. Yet the rapid growth of microfinance industry combined with inadequate financial literacy among its customers resulted in multiple borrowing and over-indebtedness. Aggravated by the financial crisis, over-indebtedness led to a dramatic rise in non-performing loans and an average of 40 percent loss in equity. This figure would have been even higher except that MFIs had already begun to aggressively write off loans. By 2009, one-third of microfinance clients in the country had at least two loans and were unable to make on-time repayments. Nearly all the 12 largest microfinance institutions (MFIs) experienced a sharp rise in portfolio-at-risk, reaching 7% in June 2009. There are numerous activities aimed to restore microfinance sector by promoting Responsible Finance practices: consumer protection, financial institutions self-regulation, and financial education. In addition, various international organisation, like International Financial Corporation (IFC), focus on debt resolution and improving the legal and regular problems. Praiseworthy is the initiative of establishing *Plus*, a non-profit debt advice centre. Since 2009, over 7,000 people participated in its personal finance workshops, and over 2,000 individuals received debt counselling and mediation services. More than 40 percent of over-indebted microfinance clients who turned to *Plus* for counselling were able to work out a financial plan to re-pay their loans. In addition to face-to-face workshops, *Plus* organised a telephone hotline on debt issues and a mobile financial education programme.

Bulgaria - Belchev (2014) explains that until 2009 the banking services in Bulgaria experienced a rapid development, what was followed by a consolidation of the banking sector and its adjustment to the circumstances of the economic crisis. The processes of credit expansion in Bulgaria took place in the wider context of fast penetration of household credit and was accompanied by several important changes: banks reduced their operational costs, primarily by the optimisation of the branch network; granting loan conditions were revised and the risk was optimized; credit financing transferred from funds provided by the mother companies¹ to own resources. There are two main time periods in the dynamics of lending to households: the

moment of accelerated credit expansion in the period 2006-2008; and the period of slowing down and freezing of lending after 2009. Between the end of 2010 and March 2014 there was there is an increase of the share of bad and restructured loans in banks' portfolio (from 10.3% in 2009 to 18.1% in 2014) due to the deteriorating labour market conditions and rising unemployment. The Economic Policy Institute realised the survey of household over-indebtedness in Bulgaria with the goal is get the insight into a profile of the borrowers. Almost half of all indebted respondents (46%) have significant loans (over € 10,000), while 41% have debt servicing difficulties. Situation seriously deteriorated in the period 2009-2013, so a share of households that properly servicing banking loans has decreased from 33.8% of all households to 22.8%. The main reason for the households' irregular repayment of their debt is the budget deterioration, so 43% of all affected identified the decrease of income from a permanent employment as the main cause for their over-indebtedness. An important part of the respondents' profile is their future expectations about the family budget. For this purpose, they had to evaluate their possibility of future debt serving difficulties. The respondents were sorted into two groups in those who already have debt serving difficulties and those who have not. The first group has much more negative expectations. In the survey by Gurov (2014) 75.9% of respondents stated that the terms of borrowing in Bulgaria are too harsh; almost 4 out of 5 "fully agree" that the interest rates and especially the annual percentage rate of charge are too high to venture into contracting a loan, 3 out of 4 declared themselves in favour of state intervention in the household lending market and in the bank policies for crediting. Furthermore, around two thirds declared the procedures for obtaining and servicing credit are lacking needed transparency and the same proportion declared that creditors are not correct in communicating information about the loans they offer. Almost half of the interviewees contemplate that creditors and debtors are not equal in rights and that banks dictate unilaterally the terms of the interaction. In comparison to the previous period, Gurov believes that it is possible to confirm some degree of financial maturation and improvement in the financial literacy of Bulgarian population. While the unreasonable demands are significantly shrinking - for example the demands for high deposit interest rates and low loans interest rates - the criticism towards the imbalance in the creditor-debtor interaction and the low level and/or the lack of transparency and responsible crediting are intensifying. Finally, the overall attitude toward loan consumption is very negative: 58.5% of respondents state that they will resort to credit under no circumstances, except for extreme urgent necessity.

Croatia - In approximately the last 14 years, the credit indebtedness of the population in Croatia first increased from 25.0% of GDP at the end of 2003 to 30.6% at the end of 2005 and reached the peak of 40.7% at the end of 2010. Since than the debt of the household sector 2011 stagnated. Weaker household demand for loans was largely due to negative trends in the domestic labour market and increased tax burden that led to stagnation in real disposable income. The process of decreasing indebtedness intensified during 2012, so the household debt until the end of September dropped below the level of 40% GDP (Croatian National Bank, 2013). 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. The halting of the contraction of economic activity at the beginning of 2014 was not a sufficiently strong incentive for the recovery of undermined household optimism. Together with the further decline in real income and the obvious change in consumers' habits, caused by the years-long recession that decreased their real assets. This was a major hurdle in strengthening household sector's demand for new, especially long-term, loans. The deleveraging process continues; even slight deceleration is quite possible. Despite that, the potential future bank losses which could arise from lending to this sector have increased, primarily due to a greater exposure of households to interest rate risk. The sharp appreciation of the Swiss franc increased the household sector debt at the beginning 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. 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. By the end of September 2015, total debt had declined by -0.5% at an annual level, while the correction was much higher (-6%) if the estimated effect of the conversion of loans in Swiss francs is included in the calculation of debt. The debt-service burdens continued to plague lower-income families disproportionately primarily because the income of the poor does not allow them to save. Only 13% of the poor have had access to borrowing (from either the banking system or intermediaries other than relatives) during the last 12 months. The poor do not save much and barely borrow in formal credit markets - which exposes them more to loan-sharking and higher income rates. The combination of low capacity to save with limited access to borrowing leads to the situation that the poor are also vulnerable to shocks and hence to income fluctuations. Although the percentage of indebted households in the lowest income groups is relatively small, relative indicators show that their debt and loan repayment burdens are significant. 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 deem that one third of households (about 470,000) have debt, and this

proportion did not change between the 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. In particular, the approval of the 2007 Consumer Protection Act incorporated many of the EU Directives related to financial consumer protection. Furthermore, The National Council on Consumer Protection was established in 2008. Its goal is to advise the Government on its national strategy for consumer protection. One of the important factors that have a positive and direct influence on the level of indebtedness is the existence (or lack) of the credit registry. In an economy in which the value of the credit information index is null, because a country does not have an adequate and efficient credit bureau, the potential for over-indebtedness is large and can lead to an 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. Twenty Croatian banks signed a contract for the founding of the Croatian Registry of Credit Obligations (HROK). After obtaining approval of the Croatian National Bank, HROK was registered as an enterprise for business services and significantly prevented further problems with over-indebtedness. The Croatian Banking Association (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 (Vehovec, 2012). Within its Personal Finance Management project entitled "How to Harmonise Income and Costs?" (Free of charge workshops for citizens and available on its website 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. Finally, in March 2015 the Government endorsed a consumer bankruptcy bill in an attempt to give over-indebted citizens a chance for a fresh start. However, this is not a magic wand but a difficult procedure both for debtors and creditors. All insolvent consumers could file for bankruptcy if they have not been able for three straight months to pay their debts which exceed HRK 30,000 (€ 4,000). This was an attempt to strike a balance between debtors who could not service their liabilities because of the crisis or other reasons and creditors who often incited citizens to incur debts. Before filing for bankruptcy, a debtor would first have to attempt to settle with the creditors out of court, before an advisory body the Financial Agency. If no agreement is reached, the proceedings would continue in court, with the consumer getting another chance to settle with the creditors. If no court settlement is reached, the court would appoint a trustee to divide the consumer's estate and represent a bridge between the court, the consumer and the creditors. Debts would be written off for debtors without assets or job prospects, while employed debtors would retain money only for the bare necessities, the rest going towards paying off their debts. However, some technical issues were not resolved (for example, who would cover the costs of trustees) and due to that the interest was significantly lower than expected.

Czech Republic - There is no common definition of over-indebtedness in the Czech Republic, nor of risk of over-indebtedness. However, some relevant definitions were used, like the one by the National bank that considers the ratio of a household's repayments to its income, reduced by essential expenditures on food, housing, energy, health and transport. If this ratio is over 50% the household is considered over-indebted. According to the Czech National Bank (2012) 38% of households have loans and these are frequently higher-income households. The ratio of household debt to gross disposable income reached 56.8% in 2012. Over-indebtedness in the Czech Republic concerns mostly lower-income households. Regarding demographic characteristics, more often over-indebted than other segments of population are young families and people who attended but did not finish secondary school. Recent trends are not positive and in the period 2010-2012 the percentage of over-indebted population increase for 4% annually (European Commission, 2013). The main macro-economic causes of over-indebtedness was unemployment level, followed by wage level and social welfare level because it is more difficult to find jobs, and wages have declined with the crisis. Furthermore, housing costs (especially in the Capital Prague) and utility costs are also important causes of over-indebtedness because most households that face this problem are paying rent for an apartment or have a mortgage. Finally, predatory or usurious types of credit/loans are an important driver of over-indebtedness. When banks refuse to give credit to people, the latter very often turns to predatory lenders that try to benefit from customers' defaults imposition of high contractual penalties and obtaining enforcement orders in order to satisfy a loan claim. The

poor financial skills and low level of financial literacy of large segments of society, led to a steep increase of over-indebtedness. The main effects of over-indebtedness is the deterioration of both living standards and well-being, followed by home repossession, reduced labour market activity, and family breakdown. The Czech Republic is one of the countries where a consumer association is the main provider of debt advisory services, complemented by private (for-profit and non-profit) organisations. The Czech Consumer Association co-founded with the Česka spořitelna Bank of the debt advisory centre, while other relevant providers include members of the association Citizens Advice Bureau and some other NGOs. Changes in responses to over-indebtedness observed during the last decade, mainly concern the Insolvency Act that came into force in 2008. The main aims of the new regulation were to ensure more transparency and better foreseeability of insolvency proceedings; confirm the status of creditors; motivate the debtor to commence dealing in a timely manner; discharge debtors if appropriate; speed up and improve the overall effectiveness of insolvency proceedings. The new challenges that need to be addressed by makers of policy decisions include: solving advertising that promotes credit and debt; improving financial education, unravelling the increased number of mortgages with variable interest rates; improving legislation and enhancing counselling and regulating debtors' fees (such as non-covered cost of unpaid reimbursements, etc.).

Hungary - There is no common definition of over-indebtedness but quite often is used approach that a household can participate in an over-indebtedness programme and get funding to repay its debts if the debt is the result of rent or utility arrears, is at least six months old and to the value of more than 50,000 HUF, or if at least one utility service has been cut off, and as long as the household's income is not above the minimum level required for housing need. There had been a significant increase in the number of over-indebted households, so data from Eurostat shows that the percentage of the population with arrears was 19.1% in 2007 and increased to 24.7% in 2011, what was more than twice the EU average of 11.4% (in 2011). Households more exposed to over-indebtedness are mostly poor and/or those with one or two unemployed persons. However, due to the crisis and changes in exchange rates, households with higher education and income levels were increasingly affected by financial problems, in particular those with mortgages in foreign currencies. The main cause of over-indebtedness is the unemployment level, followed by changes in exchange rates. Many households had taken out the maximum credit amount that the household budget could support and as macro-economic factors deteriorated they are over-indebted because they do not have any savings or fall-back options. Some of the most vulnerable group in Hungary are the Roma minority because they have no access to banking and other most important financial services, so they are target group of informal lenders (Bernát and Kószeghy, 2011). Despite of some positive attempts by the Government, usury is expanding as the social welfare system is being destroyed while the availability of legal credit for a significant part of population is rather problematic. Households had become much more cautious when it comes to using credit. Consequences for affected households are seen in deteriorated standard of living, utility disconnection, worsening mental health and well-being. These were followed by home repossession and family breakdown or divorce, the removal of children from the household by authorities and relatively often cases of social exclusion. The lack of personal insolvency in Hungary was underlined as a relevant factor that aggravates the consequences of being over-indebted. Measures in force to alleviate the impact of over-indebtedness are mostly rare and ineffective. The identification of households at risk of becoming over-indebted at an early stage is not common at all, while legislation on systematic debt advisory services was passed but operated on a voluntary basis and only a few local governments provided such services. Furthermore, fairly effective in alleviating the impact of over-indebtedness, face-to face debt advice services are available only for households with utility or rent arrears and primarily for those living in cities, as the banks and utility service providers usually do not have branch offices in small settlements. According to European Commission (2013), changes regarding the regulation of credit, utilities and housing should be made at the national level. Also, there is a need to improve the financial literacy and to develop the budgeting skills of citizens, for example through various popular TV and radio channels.

Poland - Although there is no a specific definition of over-indebtedness, the Polish Financial Supervision Authority imposes a ceiling on monthly repayment instalments of 50% of the income of those earning below the average national salary, and 65% for those earning more. In summer 2012 there were 2,215,356 persons temporarily failing to meet their obligations in August 2012, what is an increase of more than 100% in comparison with the data figures for August 2007 (less than 950,000) (European Commission, 2013). Over-indebted and/or have constant difficulties meeting their financial commitment are households consisting of people between the ages of 25 and 64, households with one or more children, households living in owner-occupied housing with mortgages, households with two unemployed persons and households where the education level is elementary (primary) school or less. Regarding the age of over-indebted households, younger households - those between the ages of 25 and 39 - were more likely to face problems because they had higher living expenses, had been more negatively impacted by the economic crisis or had a more undisturbed attitude to

taking on debt. According to Ślązak (2014), the share of moderately indebted households (as high as their semi-annual income) dropped from 53% in 2003 to 41% in 2013. As a matter of fact, this author believes that the excessive debt reliance of Polish households is not widespread and there are no crucial social problems in this field. The country was affected relatively lightly by the economic crisis, in terms of economic growth, and maintained positive growth rates throughout the period from 2007 to 2011. Nonetheless, macro-economic factors have been important causes of over-indebtedness, in particular unemployment level that increased from 7% to 9.6%. In addition, the important factor was changing in exchange rates because many households in Poland had taken out loans in foreign currency, in particular in Swiss Francs. Between the end of 2007 and the end of 2011 the value of the Swiss Franc rose from 2.19 Polish Zloty to 3.67 Polish Zloty (Polish National Bank, various years) leading to a noteworthy increase in repayments for households who had taken out loans in Swiss Francs. Further important causes of household over-indebtedness in Poland are poor money management or a decrease in income due to business failure. Regarding cultural attitude towards debt and actual level of personal over-indebtedness, in Poland taking out credit had traditionally been perceived negatively and still it is by many older people (above the age of 40 or 50). On the other side, young people have a more relaxed attitude to credit and placed less emphasis on being debt-free, probably because they are more likely to be influenced by consumerism and/or to be willing to buy without thinking about the consequences. The most important consequences of personal over-indebtedness are financial exclusion, deteriorated standard of living, lowering well-being and disconnection of utility (water/electricity/gas/etc.). The debt advice sector in Poland is not particularly well developed so most over-indebted people have to rely on non-governmental organisations or public authorities working in the general field of consumer protection. The personal insolvency was introduced in 2009, but it is barely made use of by over-indebted households due to the strict nature of the procedure. Obviously there is the need for more control of unregulated lenders that often provided predatory loans with high-interest rates without doing sufficient credit checks. Additionally, it is crucial to improve consumer insolvency law and the provision of financial education.

3. CONCLUSION

Household over-indebtedness is a relatively new phenomenon for citizens of in Central and South East Europe countries, caused by the combination of changed economic circumstances and emergence of mass-consumption society and the fast liberalization of market related activities. The main actors the new circumstances are credit institutions (primarily commercial banks), on the one hand, and CSEE citizens trying to finance more and more actively different aspects of their life strategies and consumer needs on the other. It is important to underline that majority of the citizens in observed countries have no or very weak experience and financial literacy in dealing with and using financial products in a liberalised market and that access to credit modified their economic behaviour. Household indebtedness is a serious private and social problem, and if over-indebted households are not 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.

To prevent multiple borrowing turning into over-indebtedness, financial institutions should ensure the implementation of adequate and comprehensive risk management tools. They need to assess not only the individual's credit risk but also include also all other forms of risk, primarily the market risks. Indeed, credit risk management must analyse clients' repayment capacity in the context of the market in which the loan is being disbursed, as much at the family and/or business level as the community level, and sometimes the regional level. From the Governments' side, there is a need to develop and/or improve consumer protection measures. Of particular importance are disclosure guidelines for product terms and pricing. It is important to promote further financial literacy training so that individuals can make better informed decisions about the products and services they use. The financial education and literacy programmes need to cover three areas: consumer awareness of the risks and rewards of various financial products; consumer education in preparing personal and household budgets and making long-term financial decisions oriented towards long-term sustainability; and surveys of financial literacy to understand which parts of the population may be particularly vulnerable to weaknesses in budgeting and planning, predatory lending and financial scams. The Governments 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 financial problems and do not possess adequate knowledge to cope with the complex range of financial products. The Governments should work systematically and help with consumer education and enforcement actions to enhance public awareness and to organise independent, free and confidential counselling services to target groups that have difficulty repaying a debt. In the observed countries there is a need to consider the possibility of introducing the subject of personal finances management in the curriculum of primary and secondary schools. Finally, it is a crucial to encourage and/or enhance 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. Briefly, over-indebtedness is a complex, multi-faceted, social phenomenon, caused and compounded by a combination of factors. There is a need for more robust data to facilitate informed policymaking because there are real social and economic benefits associated with preventing and addressing over-indebtedness. Thus, there is a need for a multi-dimensional and integrated government policy response. The aim of policy development should be to prevent and resolve over-indebtedness, and not just to manage and/or alleviate it.

ACKNOWLEDGEMENT

Predrag Bejakovic will express his gratitude to the support by the Croatian Science Foundation under the project 6558 Business and Personal Insolvency – the Ways to Overcome Excessive Indebtedness.

REFERENCES

- Arcelan, C., Calvo-Gonzalez, O., More, C., van Rixtel, A., Winkler, A., Zumer, T., 2007. "The Causes and Nature of the Rapid Credit Growth of Bank Credit in the Central, Eastern and South-eastern European Countries" in Enoch Ch., Ötker-Robe I., (eds.) *Rapid Credit Growth in Central and Eastern Europe: Endless Boom or Early Warning?*, London: Palgrave Macmillan.
- Bejaković, P., Mastela Bužan, V., Urban, I., 2008. *Zaduženost građana hrvatske: stanje, problemi i mjere (Over-indebtedness of Croatian Citizens: Situation, Problems and Measures)*, Zagreb: Ministry of Health and Social Welfare.
- Bejaković, P., 2016. *Problems with personal over-indebtedness and measures for their reduction: the case of Croatia*, 21st Conference on Alternative Economic Policy in Europe, Roskilde: EuroMemo Group, available on http://www.euromemo.eu/annual_workshops/2015_roskilde/roskilde_workshops_papers/
- Bernát, A. and Kőszeghy, L., 2011. *Managing household debts: Hungarian country report*, Country report commissioned by Eurofound, Budapest: TARKI Social Research Institute, available http://www.habitat.hu/files/Managing_household_debt_Hungarian_country_report_2011_Tarki_Habitat_for_Eurofound.pdf
- Chen, G., Rasmussen, S., Reille, X., 2010. "Growth and Vulnerabilities in Microfinance", Focus Note 61. Washington, D.C.: CGAP, available on <http://www.cgap.org/sites/default/files/CGAP-Focus-Note-Growth-and-Vulnerabilities-in-Microfinance-Feb-2010.pdf>
- Chmelar, A., (2013). *Household Debt and the European Crisis*, Paper presented at the ECRI Conference, 16 May 2013 organised by the European Credit Research Institute (ECRI) and the Centre for European Policy Studies (CEPS), Brussels: The European Credit Research Institute (ECRI) and the Centre for European Policy Studies (CEPS).
- Croatian National Bank, various years, *Financial stability*, Zagreb: Croatian National Bank.
- Eurofound, 2013. *Household over-indebtedness in the EU: The role of informal debts*, Luxembourg: Publications Office of the European Union available on http://eurofound.europa.eu/sites/default/files/ef_publication/field_ef_document/ef1373en.pdf
- European Commission, 2008. *Towards a common operational European definition of over-indebtedness*, Brussels: European Commission: Directorate-General for Employment, Social Affairs and Equal Opportunities.
- European Commission, 2009. *The financial crisis and financial education Report*, Brussels: European Commission Second Meeting of the Expert Group on Financial Education, available on http://ec.europa.eu/internal_market/finservices-retail/docs/capability/financial_crisis_report_en.pdf
- European Commission, 2013. *The over-indebtedness of European households: Updated mapping of the situation, nature and causes, effects and initiatives for alleviating its impact*, Brussels: DG Health and Consumers. Part 1 *Synthesis of Finding*, available on http://ec.europa.eu/consumers/financial_services/reference_studies_documents/docs/part_1_synthesis_of_findings_en.pdf, Part 2 *Country Reports*, available on http://ec.europa.eu/consumers/financial_services/reference_studies_documents/docs/part_2_synthesis_of_findings_en.pdf
- Georgiev, Y., Zagorski M., 2014. «Private Indebtedness in Central and South-East Europe - an Attempt for an Overview», in Georgiev, Y. (ed.), *Private Indebtedness in Bulgaria - Trends and Comparisons with Central and South East European Countries*, Sofia: Economic Policy Institute, pp. 51-64.
- Gloukoviezoff, G., 2007. *The Link between Financial Exclusion and Over-indebtedness*, available on <http://www.fininc.eu/gallery/documents/working-papers/working-paper-financial-exclusion-overindebtedness-final.pdf>
- Krauss, A., Meyer, J., Pytkowska J., 2014. *Summary Report on the Level of Indebtedness of MSME Credit Customers and the Quality of Finance in Bosnia and Herzegovina*, Zurich: University of Zurich Centre for Microfinance.
- Novak, T., 2014. Private Indebtedness in Hungary: Special Developments, Difficult Outcomes, in Georgiev, Y. (ed.), *Private Indebtedness in Bulgaria - Trends and Comparisons with Central and South East European Countries*, Sofia: Economic Policy Institute, pp. 65-88.
- Polish National Bank, various years. *Average exchange rates table*, Warsaw: Polish National Bank

- Sugawara, N., Zaldueño, J., 2011. Stress-Testing Croatian Households with Debt - Implications for Financial Stability, *Policy Research Working Paper 5906*, Washington DC.
- Simović, V., Vasković, V., Ranković, M., Malinić, S., 2011. The impact of the functional characteristics of a credit bureau on the level of indebtedness per capita: Evidence from East European countries, *Baltic Journal of Economics*, 11(2): pp. 101-130.
- Ślęzak, E., 2014. Household Indebtedness in Poland in post-crisis perspective, in Georgiev, Y. (ed.), *Private Indebtedness in Bulgaria - Trends and Comparisons with Central and South East European Countries*, Sofia: Economic Policy Institute, pp. 89-106.
- The Czech National Bank, 2012. *Financial Stability Report 2011/2012*, Praha: The Czech National Bank.
- The World Bank Europe and Central Asia Region Office of the Chief Economist The Consultative Group to Assist the Poor, 2012. *Session 6: Over-indebtedness in Bosnia and Herzegovina*, Washington, D.C.: CGAP, available on <http://www.cgap.org/events/session-6-over-indebtedness-bosnia-and-herzegovina?page=>