

IS PERSONAL OVER-INDEBTEDNESS AN IMPORTANT FACTOR ON THE LABOUR MARKET?

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ABSTRACT

People with serious debt problems suffer on the labour market and/or often suffer some of the same characteristics as the working poor. Their financial problems reinforce socioeconomic dependency, jeopardizing their employability, which further contributes to a decrease in employment perspectives for the unemployed to enter or return into the labour market. Over-indebtedness increases social exclusion and poverty and causes vulnerability. Many of the developed European and post-transitional countries have witnessed significant increases in personal over-indebtedness in the last few decades. This causes concern about the economic and social impact of the phenomenon, primarily because such a situation leads to a deterioration in households' social and economic well-being. While there were relatively abundant resources on personal over-indebtedness and employability, the linker between these two factors have been largely neglected. According to the available resources, the idea of the authors is to provide an overview about the situation in various countries regarding the link between personal over-indebtedness and the labour market.

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1. INTRODUCTION

There is relative abundance of information and an extended analysis on the scope and importance of personal over-indebtedness in the literature, but this phenomenon has not been linked to the labour market very often. Personal over-indebtedness can cause non-participation and/or limited access to the labour market, which leads to poverty, vulnerability and social isolation. Although there is a lack of reliable data on the relationship between exclusion from social processes caused from the lack of access to the labour market and over-indebtedness, one can argue that these are two separate issues with relatively strong links. The aim of this paper is to examine whether over-indebtedness interacts with weak access to the labour market, and what are the consequences of such relationships.

Firstly, it is necessary to define the phenomena in question. While there is no single official definition, according to the conventional definitions, over-indebtedness is the inability of people to meet their household's financial obligations (i.e. to pay their bills including mortgage and rent) and fulfil the repayments on any consumer credit they have. The actual number of over-indebted people can be assessed, but due to the lack of a single official definition of over-indebtedness, it is difficult to carry out the precise assessment.

On the other hand, social exclusion is a multi-dimensional phenomenon, which weakens the relationship between the individual and the community. This relationship can have an economic, political, socio-cultural and even spatial dimension. The higher the number of dimensions an individual is exposed to, the more vulnerable he or she becomes. Exclusion is most commonly spotted in the access to the labour market, but it is also related to the inability to use most of the essential social services, lack of adequate human rights and similar. Social exclusion is often linked to unemployment and poverty, but these are not its only causes. The modern concept of social exclusion clearly accepts that over-indebtedness is one of the most important reasons for social exclusion that can also aggravate other causes of social exclusion, primarily through lower self-esteem, limiting self-reliance capacity, negative effects on person's health, his or her ability for education and up-skilling and so on (Steward et al, 2017).

Over-indebtedness can have grave consequences on the health of affected people. It can endanger their psychological stability and cause the feeling of fear, crisis, anxiousness, stress and frustration. Over-indebted persons often have significantly worse health conditions; they suffer from continuous feelings of exhaustion, and endure more physical pain in comparison to the total population (Mossakowski, 2008, European Commission, 2013.). These factors also negatively impact their position on the labour market, which as a backlash and can further propel them into personal over-indebtedness.

The best exit from debt and unemployment is to encourage people to become financially and mentally empowered to make well-considered choices. Thus, leading to success with finances and an improved position on the labour market for the short and long term. Financial education could help to increase someone's financial competence, while up-skilling, training and further specialisation improve their position on the labour market. The best results are achieved if users are reached at an early age although adequate results are possible during the adulthood as a part of lifelong learning process.

After this Introduction, Section 1 is devoted to the relationship between personal over-indebtedness and human capital. Section 2 describes the situation in and relation of over-indebtedness and employment in various EU countries. The third section discusses the

measures regarding reducing over-indebtedness and improving the position of such persons on the labour market. The final section is comprised of the conclusions and recommendations.

2. PERSONAL OVER-INDEBTEDNESS AND HUMAN CAPITAL

The concept of human capital is broader than just the formal education of the labour force, because it includes all knowledge and skills acquired formally, informally and investment in health under the broadest definition. The level of human capital does not need to be the same as the average level of formal education, because there should be a focus of attention dedicated to the health situation of the population. The text begins with an explanation of employability, where adequate attention is given to the skills and characteristics of successful employability.

The lack of or weak access to the labour market is closely related to the low level of employability. Employability can be defined as the extent to which employees have skills, personal characteristics and attitudes that employers deem as attractive and of economic value. Although the concept of employability is slightly ambiguous, all definitions seem to converge to employability being more than the capacity for *getting a job*. It also involves the effectiveness at work and the ability to adapt to the changing working environment. According to the Dearing Report (UK) (Her Majesty's Stationery Office, 1997), *employability skills* is a term commonly used to cover a group of key basic and transferable skills. The main areas that are highlighted as being beneficial to employers and, therefore, to current and future workers include: communication skills, problem solving skills, analytical skills, data analysis, critical appraisal, time management, and team working.

The ILO (2002) defines employability as a key outcome of education and training of high quality, as well as a range of other policies. It encompasses the skills, knowledge and competencies that enhance a worker's ability to secure and retain a job, progress at work and cope with change, secure another job if she/he so wishes or has been laid off, and enter more easily into the labour market at different periods of the life cycle. Individuals are most employable when they have broad-based education and training, basic and portable high-level skills, including teamwork, problem solving, information and communications technology (ICT) and communication and language skills, learning to learn skills, and competencies to protect themselves and their colleagues against occupational hazards and diseases. This combination of skills enables them to adapt to changes in the world of work. Employability also covers multiple skills that are essential to secure and retain decent work.

The Conference Board of Canada's Employability Skills Forum and the Business and Education Forum on Science, Technology and Mathematics (2015) define that employability skills include communication, problem solving, positive attitudes and behaviours, adaptability, working with others, and science, technology and mathematics skills. They divide employability skills into fundamental employability skills, personal management skills and teamwork skills. However, employers appraised differently various characteristics of employability (Table 1).

Table 1a: 10 most important skills that are characteristics of successful employability

Characteristic	Explanation
Verbal communication	Able to express one's ideas clearly and confidently in speech, speak so others pay attention and understand, listen and ask questions, to understand and share information using a range of information and communications technologies
Teamwork	Work confidently within a group, appreciate the points of view of others
Commercial awareness	Understand the commercial realities affecting the organisation
Analysing, investigating, problem solving	Capability to gather information systematically to establish facts, principles and rules, assess situations and identify problems, seek different points of view and evaluate them based on facts, recognize the human, interpersonal, technical, scientific and mathematical dimensions of a problem, identify the root cause of a problem, be creative and innovative in exploring possible solutions, readily use science, technology and mathematics as ways to think, gain and share knowledge
Initiative and self-motivation	Ability to secure and retain a job, progress at work, capability to act on initiative, identify opportunities and proactive in putting forward ideas solutions
Drive	Determination to get things done, make things happen and constantly looking for better ways of doing things, competencies to protect themselves and their colleagues against occupational hazards and diseases
Written communication	Able to express yourself clearly in writing, locate, gather and organize information using appropriate technology and information systems; access, analyse and apply knowledge and skills from various disciplines
Planning and organising	Ability to plan activities and perform them through effectively
Flexibility	Adapt successfully to changing situations and environments
Time management	Ability to manage time effectively, prioritising tasks and able to work to deadlines

Table 1b: Other skills that are also important of successful employability

Global skills	Knowledge and ability to speak and understand other languages. Appreciation of other cultures
Negotiating & persuading	Ability to influence and convince others, to discuss and reach agreement
Leadership	Capacity to motivate and lead others
Numeracy	Decide what needs to be measured or calculated observe and record data using appropriate methods, tools and technology make estimates and verify calculations, understanding and working with numerical and graphical information, drawing conclusions, explaining findings, making deductions and detecting suspect deductions by others
Computing skills	Word-processing, using databases, spreadsheets, the Internet and email, designing web pages etc.
Self-awareness	Awareness of achievements, abilities, values and weaknesses
Personal impact and confidence	Having a strong, professional, positive image to others which inspires confidence and commands respect
Lifelong learning	Willingness to learn throughout life and readiness to develop the competencies needed for current and future jobs and social roles
Stress tolerance	Resistance to stress and ability to maintain effective performance under pressure
Integrity	Respects of and adheres to standards and procedures, maintains confidentiality and questions inappropriate behaviour

Independence	Accepts responsibility for views and actions and able to work under their own direction and initiative
Developing professionalism	Pays care and attention to quality in all their work. Supports and empowers others
Action planning	Able to decide what steps are needed to achieve particular goals and then implement these
Decision-making	Determines the best course of action. Evaluates options based on logic on fact and presents solutions
Interpersonal sensitivity	Recognition and respect to different perspectives, openness to the ideas and views of others
Creativity	Generates and applying new ideas and solutions

Source: Various sources, mostly adjusted from ILO (2002), University of Kent (2016), The Conference Board of Canada (2015)

Brown and Lauder (2009) underline that educational systems – particularly high education – around the world are evolving in conjunction with wider structural transformations in advanced, post-industrial economies. This causes concerns around the distribution and equity of students’ professional and economic opportunities, as well as the traditional role of education system in facilitating access to desired forms of employment (Scott, 2005).

If we analyse the human capital in the broader context, including employability and personal health situation, private over-indebtedness can also be a significant factor that seriously influences a person’s health and thus reduces the employment possibilities and one’s competitiveness on the labour market (European Commission, 2013). Bad health or serious illness in a family can cause personal over-indebtedness - due to the need to cover health costs. In these circumstances, it is necessary to spend a significant part of limited financial resources for health protection. On the other side, it can also be the consequences of personal over-indebtedness, while such persons are often in permanent stress and they worry for the future of their family.

In the EU, there is no standard definition of over-indebtedness and therefore, no set of standardised, and harmonised, statistics on it (European Commission, 2008). In Germany for example, personal indebtedness has been defined as a situation where household income ‘in spite of a reduction of the living standard, is insufficient to discharge all payment obligations over a long period of time (Haas, 2005). In the UK, the focus is on arrears in paying regular bills. Thus, over-indebtedness is defined as a situation where households or individuals are in arrears on a structural basis, or at a significant risk of getting into arrears in a structural basis (OXERA, 2004). A study carried out for the European Commission (2008) to develop a common definition across the EU put forward a set of criteria to be applied. Among others, over-indebtedness implies an inability to meet recurring expenses and, therefore, it is as an ongoing rather than a temporary, or one-off, state of affairs. Such an adverse situation is not possible to resolve simply by borrowing more. For a household to meet its commitments, it requires it to reduce its expenditures substantially or find ways of increasing its income. Accordingly, an over-indebted household is, defined as one whose existing and foreseeable resources are insufficient to meet its financial commitments without lowering its living standards, which has both social and policy implications if this means reducing them below what is regarded as the minimum acceptable in the country concerned (European Commission, 2010). Thus, due to the lack of an internationally accepted definition, all possible direct comparisons of personal indebtedness in various countries can be misleading (European Commission, 2010).

The most reliable source for eventual international comparisons are the RU-SILC data. In the EU-SILC, the forms of debt distinguished arise from:

- being overdrawn on a bank account due to financial difficulties, with interest being charged on the amount concerned but with no fixed schedule of payments;
- having an un-cleared balance on a credit or store card at the end of the month for at least the last 3 months specifically because of financial difficulties rather than because of using the credit as a means of smoothing expenditure in relation to income;
- being in arrears in meeting the payment due on credit or loans for non-housing purposes for financial reasons;
- being in arrears in paying the costs of servicing housing loans or utility and other bills relating to housing; and
- being in arrears in paying other, non-housing related bills.

According to the EU-SILC 2008, the proportion of people living in households with outstanding debts and/or arrears of over 100% of disposable income for different categories of household. It was in Belgium 2.1%, Czech Republic 1.9%, Denmark 2.0%, Germany 10.2%, Estonia 0.7%, Ireland 3.9%, Greece 5.3%, Spain 1.1%, France 2.3%, Italy 3.5%, Cyprus 7.8%; Latvia 1.8%; Lithuania 0.1%; Luxembourg 0.7%, Hungary 2.5%; Malta 0.9%, Netherlands 1.8%, Austria 6.7%, Poland 0.0%, Portugal 1.0%, Romania 1.7%, Slovenia 4.4%, Slovakia 1.9%, Finland 1.0%, Sweden 0.6% and UK 11.8%. The EU average was 4.6%.

Many studies have confirmed that personal indebtedness has the undesirable and dangerous effects on health, such as rapid weight loss, frequent headaches, nervous distress and excessive use of drugs, especially painkillers. For Finland, Hintakka et al. (1999) concluded that the use of sleeping pills and other sedatives is approximately four times higher by people with problems of over-indebtedness in comparison to the overall population. Aldwin and Revenson (1986) found a significant correlation between the impossibility of the debt repayment and the adverse effects on the psychological stability of people. Kavanagh (2000) lists the adverse effects on the mental state of affected people: a sense of crisis, anxiety, fear, frustration and tension, conflicts with spouses and children, increased domestic violence, stress and depression and suicidal tendencies. Such allegations are confirmed by the research of Nykänen et al. (1995) where it was shown that over 70% of the target group of over-indebted people suffer from a mental disability, which is three times more than the total Finnish population. Every third person thinks about suicide, while it is only recorded at 3% of respondents of the total population.

Using the panel data on individuals for the United Kingdom from 1991 to 2008, Gathergood (2012) concluded that people who have difficulty paying off their financial obligations and debts, suffer twice as much from mental health problems or suffer from serious problems of anxiety compared to the entire population. Furthermore, people who have difficulty paying utility bills or repayment of mortgages are three times more likely to be ill with mental health problems than the average population. Ahlström (1998) investigating the health and quality of life of indebted Swedes, found that such persons had a very poor quality of health, especially in terms of mental health, vitality, social and physical functioning. Additionally, this group had suffered from physical pain much more than the entire population. Keese and Schmitz

(2011) for Germany reckoned that indebtedness is strongly correlated with physical and mental illness and obesity. It is particularly worrying, that according to the findings of Fitch and al. (2007) even psychiatric treatments are not very effective in dealing with mental health problems caused by over-indebtedness. A deteriorated health situation causes the increase of expenditures related to the preservation of health, which in turn probably increases indebtedness and social exclusion.

Blázquez Cuesta and Budría (2015) using Spanish data concluded that over-indebtedness, as measured by the debt-to-income ratios, is negatively associated with health. However, they find that this effect is driven by non-mortgage debts. The interplay between debt and health is not merely driven by less disposable income and resources, but depends also on the *social norm effects* in the debt-health relationship. The adverse psychological effects that burden over-indebted individuals might arise in a large part due to stigma effects. Even though financial problems hurt, people may feel relatively better once they know that a large part of the population is also affected by financial strain and debts. If household over-indebtedness is prevalent in society, households are likely to improve their perceived financial safety.

In many countries, while the over-indebted person in principle could receive health care if she or he were registered as unemployed, her or his debt probably prohibits this. If the person cannot pay debts, she or he avoids legal work (the income would be registered and state authorities would enforce payment of the debt). Furthermore, she or he cannot open a bank account (it would be registered and the state authorities would claim the money in the account). The individual cannot own property, nor inherit it from her or his parents because this would be taken as compensation towards their debt repayment (Polese, 2016). Thus, due to over-indebtedness, such people can easily worsen their already weak links to the labour market and are pushed deeper into a marginal position in society. In that way, it seems close to impossible for such people to get back into the mainstream and to be regularly accepted by society.

Because of the aggravated health condition of affected individuals caused by over-indebtedness, 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 sick leave, the costs of long-lasting medical treatment, prolonged unemployment, rehabilitation and the early retirement of affected individuals). There are also further social costs, such as increased probabilities of criminal behaviours, or children dropping-out of education. In that way, personal over-indebtedness, low levels of education, (long-term) unemployment and related poverty can be transferred to new generations (Bejaković, 2016).

Succinctly, bad mental health or serious illness caused by over-indebtedness can imperil employment possibilities, professional promotion and limit the exit from poverty and unfavourable financial situation. In addition, unfavourable position on the labour market - linked primarily with long-term unemployment and/or insufficient or irregular revenue - can force an individual into over-indebtedness and thus leading them towards health-related problems. Of course, the situation differs in various EU countries, which will be presented in the following text.

3. THE SITUATION AND RELATION OF OVER-INDEBTEDNESS, EMPLOYMENT AND EMPLOYABILITY

There is a based assumption that over-indebtedness of the population is one of the most important determinants of social exclusion. Indebted people often feel isolated, which can easily lead to depression and disruption of mental health. This can further limit their employability and competence on the labour market, which keeps them in the vicious circle of unemployment, over-indebtedness and marginalization.

Davydoff et al (2008) confirm the strong links between unemployment and experiencing financial difficulty, so not being in employment causes an increased likelihood of over-indebtedness in Great Britain, Belgium, and the former East Germany. The study by the Banque de France in 2004 showed that three in ten people became over-indebted through redundancy or unemployment (Gloukoviezoff, 2006). Analysis in Ireland and the UK found that unemployment status has been associated with an increased likelihood of over-indebtedness (Kearns 2003; Kempson et al., 2004, Russell et al., 2011.). Similarly, unemployment was mentioned as a cause by a quarter (23%) of those in the former West Germany who were having problems with over-indebtedness, and 46% of those in the former East Germany (Hass, 2005). The particular problem is with long-term unemployment that was found to be predictive of over-indebtedness in the Great Britain (Berthoud and Kempson, 1992) and Norway even when controlled for income (Poppe, 1999). When other factors were taken into account, households where the head of household was unemployed were most likely to report arrears and problems with the over-indebtedness (Davydoff et al, 2008).

Over-indebtedness may affect an individual's health status, and thus employability, for several reasons. First, debt problems are related to lowered self-esteem, an increasingly pessimistic outlook on life, and reduced mental health due to depression, fear of the future, severe anxiety and hostility (Fitch et al., 2007; Bridges and Disney, 2010). Second, debt can cause a decline in physical health. To the extent that high repayment burdens may tighten the financial situation of families, they may be forced to save on costly medical care utilization and health protection such as, for example, healthy food, that is usually more expensive than junk food (Drentea and Lavrakas, 2000). Third, serious financial problems impede rational thinking and very often are associated with non-healthy behaviours such as addiction to alcohol, excessive drinking, smoking and excess food intake (Grafova, 2007; Wardle et al., 2012; Averett and Smith, 2014). Fourth, there is a link between financial stress and suicide. Specifically, financial problems have been found to lead to more suicide attempts than nearly all other psychological conditions, except depression (Wang et al., 2012).

In most countries where over-indebtedness has been analysed (for example, Austria, Belgium, France, Germany, Ireland, Netherland, Norway, Great Britain), it looks like the main reasons for personal over-indebtedness are life changes, particularly those related to the labour market (e.g. unemployment and/or job loss), followed by separation or divorce, sickness and similar problems. Overall access difficulties are often mentioned as a cause of income poverty and present problems in obtaining a job and contribute to the wider problem of social exclusion. Access difficulties also thwart people from participating in society. An examination of over-indebtedness shows that the consequences are very similar.

In relation to poverty, it is clear that someone who is unable to repay his/her debt faces poverty. Even if his/her income is above the poverty line, his/her disposable income (i.e. the income available for household expenditure) is insufficient to make ends meet. Of course, those different situations are not exactly the same; nevertheless, due to unemployment and/or

insufficient income people face the same process of impoverishment and social exclusion (European Commission, 2013). For better insight into the situation in various countries, in the following short text situations in three old EU members - Austria, Belgium and Netherland, and three post-transitional countries - Bulgaria, Croatia and Poland, is presented.

Austria - Compared to the other European countries, Austria has two adverse specificities: on the one hand, as a rule, full bankruptcy discharge is granted only after seven years of repayment, and on the other hand, a minimum of 10% of the debt has to be repaid. This means that it is almost impossible for people with a low income or people who are long-term unemployed and/or at risk of poverty to get the chance to make a fresh start. According to official data debt sums (average debt expressed in Euro) decreased from € 72.5 thousand in 2012, to € 70.6 thousand in 2013 and € 66.9 thousand in 2014. Reasons for over-indebtedness is unemployment or an income decrease (40.6%), failure of former entrepreneurship (19.1%), budgeting problems (15.2%), divorce / separation (12.1%) and high housing costs (11.1%) (Schuldenberatung, 2016).

Belgium – Very exposed to over-indebtedness and poverty are one person households of unemployed people. Especially single parents are having difficulties because they have only one income, very often from welfare benefit and not from work. According to European Commission (2013) long-term unemployment, that has increased during the crisis, in particular is a problem. In the first few months, the income is of course reduced, but not so dramatically due to the existence of unemployment benefit. After a certain period, the amount of the unemployment benefits reduces. Especially if both household members are unemployed, this can be a major problem.

Bulgaria – Among the causes of private over-indebtedness, Gurov (2014) emphasises extremely low financial culture of the population and distinct information deficit regarding the use of financial products as well as the combination of a strong consumer-oriented attitude in the backdrop of low income and forced indebtedness. The reason for late payments are almost completely financial and could be grouped into two main categories: around two thirds of the mentioned low income and constant lack of financial resources, while the remaining one third have mentioned negative events in formation of their household budget - loss of job, late salary payment, death of main household breadwinner, unexpected medical expenditures, etc. According to the statistics of the Bulgarian National Bank, there is an increase of the share of bad and restructured loans in the banks' portfolio, mostly due to the deteriorating labour market situation and rising unemployment.

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 then the debt of the household sector 2011 stagnated. Weaker household demand for loans was largely due to adverse trends in the domestic labour market and increased tax burden that led to the stagnation in real disposable income. The decreasing indebtedness intensified during 2012, so the household debt dropped below the level of 40% GDP. 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 interest rates. The combination of a low capacity to save with limited access to borrowing leads to the situation that the poor - most of them are unemployed or inactive - 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. Sugawara and Zalduendo (2011) using the Household Budget Survey, conclude that very few households in Croatia are at risk as a result of the shocks experienced over the past few years. 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 the data by the Financial Agency, on 31 November 2016, in Croatia there were 330,297 citizens with blockade banking accounts. The debt of the citizens amounted to HRK 41.08 billion (€ 5.5 billion). According to the research of Croatian National Bank and HANFA (Hrvatska narodna banka i HANFA, 2016), around 20% of the citizens have problems with regular payment of their financial liabilities.

Netherland - A least once during the year, nearly half of all Dutch households failed to pay a bill on time, were unable to withdraw money from a bank account, had earnings attached or had power cut off. Failure to pay the occasional bill on time is not a serious matter, but if arrears of payment accumulate and people can no longer meet their financial obligations, not only affect them but also those around them – and ultimately the rest of society – will suffer. The European Commission (2013) reports that 40% of respondents to its survey had been late with payments during the past 12 months, and 26% had been in arrears or overdrawn more than once during the past 12 months. As an important cause of over-indebtedness in 7 out of 10 interviewed people mentioned unemployment, particularly because of the current government policy offers incentives for people to stay unemployed. According to Nibud (2012) one in ten of Dutch household is at risk of getting into debt problems. It is therefore important to tackle financial problems as early as possible, and ideally to prevent them from arising in the first place. People with financial problems give various explanations for their debts, but seldom blame themselves. Instead, they often mention external factors such as unemployment, divorce or poor financial advice. Many respondents in arrears of payment state that the arrears are due to specific events - 35% of them mention unexpected (or unexpectedly high) expenditure, and a quarter of them a decrease in income - but some of them do acknowledge that their own behaviour is a contributing factor.

Poland – The global financial crisis has had a very negative influence on consumer loans risk in banks, which was aggravated by worsening Polish labour market and jobless economic growth (Slazak, 2014). Even though people are using more credit and debit cards, there are no specific cultural changes. Financial services are becoming more and more popular and people use them more often. The number of over-indebted people has increased significantly, but overall there have not been any cultural changes as to how debts are generally perceived (European Commission, 2013). In terms of the European context, the percentage of the Polish population with arrears in 2011 was 14.2%, which is almost three percentage points higher than the EU average (11.4%). The most common types of households in Poland that are over-indebted and/or have on-going difficulties meeting their financial commitment are households with two unemployed persons and households where the education level is elementary (primary) school or less. In Poland, poor money management or a decrease in income due to unemployment and/or self-employment business failure are the most important causes of household over-indebtedness. The most important consequences of over-indebtedness for affected households are financial exclusion, reduced standard of living, endangered health situation, deteriorating well-being and utility (water, electricity, gas, etc.) disconnection (Majkut and Kaxira, 2012).

Although the situation differs in various countries, households affected by unemployment were more likely to be over-indebted, and over-indebtedness can cause person's unemployment or aggravate his or her position on the labour market. Various countries provide a scope of measures for reducing over-indebtedness and improving the position of vulnerable persons on the labour market, which is presented in the further text.

4. REALISED MEASURES REGARDING REDUCING OVER-INDEBTEDNESS AND IMPROVING THE POSITION OF VULNERABLE PERSONS ON THE LABOUR MARKET

The reasons for over-indebtedness are many and differ in various countries or during the time, but there are some common and permanent causes. One is related to the unjustified optimism and unexpected gain(s), from lotteries, hereditary sources and similar (European Commission, 2013). Furthermore, there is widespread underestimation of financial risks during the build-up and booming cycle.

Reduced labour market activity caused by over-indebtedness can be tied to deteriorating physical or 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. People with debts can be taught financial skills by those around them, or by professionals specialising in debt prevention, and so reduce their likelihood of getting into financial difficulties. 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 captivation in over-indebtedness and a lack of access to the labour market. The access to the labour market can be improved through measures of an active labour market policy as well as through lifelong learning and education (ALE).

Usually, measures to prevent over-indebtedness are needed in three broad areas: (1) Responsible lending; (2) Responsible borrowing and money management; and (3) Responsible arrears management and debt recovery. A comprehensive approach to tackling over-indebtedness also requires three groups of measures to assist people who have serious problems with over-indebtedness and to rehabilitate them: (1) Debt advice and counselling services; (2) Judicial processes, including bankruptcy; and (3) Non-judicial (or amicable) procedures for debt settlement (for details see European Commission, 2009, 2013, Eurofound, 2012, 2013). Most of the countries do not pay adequate attention towards the link between a position on the labour market and financial problems. As examples, one can mention Belgium and Germany where debt counselling is provided through centres of social welfare and public employment services (De Mynck, 2012; Fertig, 2016). Our six selected countries have different approaches towards measures and advices for over-indebted persons and those with unfavourable positions on the labour market.

Austria - The ASB Schuldnerberatungen GmbH, a limited company, is a private non-profit making organisation (NPO) and the umbrella organisation of all debt advice services. Members of the ABS need to be established as non-profit organisations and to satisfy certain quality criteria in order to be officially acknowledged by the Austrian Ministry of Justice. The ASB acts as an interface between debt advice services and creditors as well as the ministries political decision makers and institutions and research institutes. The main activities are - beside the exchange of information - training of debt advisers, development of quality management, coordination of PR-work and lobbying as well as data collection and research on debt-related matters. The ASB also acts as a trustee in legal private bankruptcy proceedings. The 10 state-approved debt advice organisations (with 20 additional regional

offices) provide free services, they are granted public subsidies and they are officially recognised. There are also a few private, profit-oriented debt regulation centres that advertise their services in various forms. Officially recognised debt advice centres are entitled to use a specific debt advice label. They are recognised by public authorities and receive public funding from the provinces and the public employment service. People who turn to an officially recognised debt advice centre never have to pay for the services provided. The share of unemployed clients of debt advice centres is more than 8 times as high as in the general population. Over the past ten years, there was an increase in the participation of the workforce in ALE, while a closer look at the purpose of training shows that the two groups with a relatively low participation rate focused more strongly on private purposes and less on occupational needs in training. On average, the majority of all people participating in formal or non-formal training do so predominantly for vocational purposes. However, participation is relatively low for people with lower education attainment (ISCED level 1-2) and for persons in the age group of 55-59. There are also significant gender differences: women's training is linked far more often to private purposes than men's. In general, it appears that a strong integration in the labour market and higher level of qualifications tend to result in higher participation in training programmes, especially in training for vocational purposes. More detailed data, which are available for gainfully employed persons participating in non-formal vocational training, are in line with this general trend. One of the main problems is a general lack of information on offers on lifelong learning and services. This is true irrespective of multiple sources of information available in Austria, e.g. information centres, websites. Furthermore, other important aspects to be taken into consideration are the costs of training, limited financial resources and a lack of information regarding existing subsidies. These are all considerable obstacles to an increased participation in further education and training. Moreover, the design of training measures must reflect the time resources of the individuals, since flexible working time arrangements and care responsibilities are factors that limit their possibilities to take part in the training measures.

Belgium - There is the problem of consumers feeling ashamed about their debts that results in their reluctance to seek help. Furthermore, insufficient public awareness of the risks of becoming over-indebted constitutes a major barrier in an individuals' search for debt advice. The country has a relatively mixed system of debt advice. Personalised debt advice is provided free-of-charge mainly by NGOs and public authorities (such as social welfare services and/or employment offices). The availability of face-to-face advice can be variable, often concentrated in urban areas with larger populations. The major funds for official debt counsellors come from credit providers and the way they provide the money is linked to the default rate considering the market share. So the more arrears and defaults they have, the more they will contribute to this fund which should lead to more responsible practices by the lenders. The law on collective debt settlement had a great impact and its main idea is that consumers with debts with different lenders can go to a debt mediator, who gets in contact with all the lenders and tries to reach an agreement with all of them, based on an estimation of the real possibilities of the person who took the loan for repayment. There are various courses, on-the-job training, programmes of knowledge updating primarily focused on the improvement of employability and skilling, that include also improvement of financial literacy. Face-to-face personalised debt advice is widely available in Belgium, mostly offered by public centres of social welfare at the municipal level as well as by recognised debt mediators (lawyers, public officers and notaries). Whereas debt advice from social welfare centres is generally (at least partly) free of charge, private debt mediators charge consumers for their services.

Bulgaria – The entrance to personal indebtedness in Bulgaria is very easy, simple and short lasting, while the exit is complicated, painful and complex. There is widespread belief that the procedures for obtaining and servicing credit are lacking needed transparency as well as that creditors are not correct in communicating information about the loans they offer. In a similar way, people often state that creditors and debtors are not equal in rights and that banks dictate unilaterally the terms of the interaction. Bulgaria has a very low rate of participation in ALE. The lack of sufficient financial resources is the most important reason for weak interest for training and skilling for the labour market, so there is even more limited possibility for other forms of education, like improving financial literacy. In terms of availability, face-to-face advice is partly or rarely available, while advice given over the phone, email, web-based tools or printed information are insufficiently available and accessible. Face-to face debt advice is generally a paid or partly paid service. Funding of debt service advice is insufficient. Gurov (2014) underlines some degree of financial maturation and improvement in the financial literacy of the Bulgarian population. In the future there is a need to increase financing for non-governmental organisations; concert efforts by various stakeholders (the government, credit institutions, non-profit organisations, etc.); and to develop programme at the EU level for funding information centres where indebted consumers may ask for help and advice.

Croatia - The government in March 2015 endorsed a consumer bankruptcy bill in an attempt to give over-indebted citizens a chance for a fresh start. The law entered into the force 1 January 2016, but during the first six months of its implementation, 619 case requests to initiate extrajudicial procedures were received. A small number of demands for personal bankruptcy is a sign that new legislation is unknown to many. 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. The financial literacy of citizens seems to be rather poor, as citizens - particularly those with lower levels of education, that are often unemployed - are insufficiently and/or 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 has been realised since 2006 and still available on its website www.hub.hr). During the workshop the participants are informed that it is generally more favourable to take on some other type of credit and to repay a “persistent” overdraft. The Croatian Employment Service (CES) uses several models to implement educational activities, primarily measures of active employment policy: They include among others the co-financing of professional improvement for a known employer and the financing of education for an unknown employer, for which the funds are ensured from the state budget. The coverage rate (the number of newly included participants in measures of active employment policy divided by the average number of the unemployed people registered by the CES increased from 2.49% in 2009 to 12.76% in 2013 (The Croatian Employment Service, 2016). However, through the Croatian Employment Service and social welfare centres there are still no special information and education courses and counselling services regarding the prevention of over-indebtedness and needed measures establishing what to do in the case of financial problems. In all 21 Croatian counties, Financial Agency (FINA) is in the process of establishing counselling services.

Netherland - The general, traditional Dutch attitude and culture are favourable to saving and are debt-adverse. However, this has changed over the last few decades with the increased availability of credits and loans, but the financial crisis in itself may lead to a reversal of this

trend (European Commission, 2013). The affected households suffer from a reduced standard of living, deteriorating well-being, and deteriorating mental health, which often leads to social exclusion, mostly to the feelings of shame). In recent years, there has been an increasing focus on people's motivation and attitudes when faced with financial problems. Various counselling services with attention to early-warning measures have begun to focus more closely on behaviour and how to change it, especially in training courses. Requirements for starting consumer insolvency procedures usually include debt restructuring efforts mediated by debt counsellors. Face-to-face debt advice is available while relatively recently were introduced personalised debt advice by telephone. Printed brochures and Internet websites offering free information and possibly generic advice are also widespread. Local authorities and other bodies are showing interest and support of such activities. Several municipalities have piloted initiatives involving volunteers and holistic debt counselling (including psycho-social attention) and prevention practices at a municipal, district and neighbourhood level. Volunteers are mostly helping households in administering their financial accounts and situation. In recent years, debt relief efforts have increasingly focused on the person's own capabilities, character and behaviour. The idea is to motivate clients to change, particularly working on their intrinsic motivation, behaviour and skills. research available shows that debt advice has a positive impact. A cost-benefit calculation from 2011 based on the data from five average sized municipalities shows that each Euro spent on debt counselling activities returns from 2 to 3 Euro in reduced public expenditures for social benefits (Kruis et al, 2011).

Poland - The debt advice sector in Poland is not particularly well developed. This means that most over-indebted households have to rely on non-governmental organisations or public authorities working in the general field of consumer protection, such as the *Federacja Konsumentów*. Debt advice services is not widely available, but where they do exist, they are usually free of charge. They are mostly provided by few non-profit organisations, which offer legal advice to over-indebted consumers. One positive example of debt advice provision is the National Network of Financial and Consumer Counselling Centres Project. It was established by a nongovernmental organisation with the help of public funding. The network of nine financial advice centres in different Polish cities provides financial education and advice to over-indebted households. In the last few years in addition to the development of debt advice services, there has been some preventative action taken against over-indebtedness, specifically against fraudulent lending. A public awareness campaign called "Before you sign" has been launched, which encourages the use of free advice (by telephone, mail or chat) on legal aspects concerning loan contracts. Demand for debt advice had increased in the last five years. Some possible reasons for this are a growing number of over-indebted households, higher levels of awareness regarding the existence of debt advice services, as the result of education and media campaigns. However, awareness of debt advice was still fairly low and still most people would not know where to look for help. The participation of adults (25+) in ALE is relatively low and it is impossible to assess employer engagement in organising training because of the lack of systematic data. Generally, training in most of the firms is for specific knowledge, updating practical or vocational skills, or developing skills essential to a firm's market position, but systematic education regarding financial literacy is lacking.

Obviously, there are various approaches regarding the prevention of over-indebtedness and improvement the position on the labour market, but from various sources (Fondeville et al, 2010, Eurofound, 2012, 2013, European Commission, 2013, Borbély Pecze and Hutchinson, 2014) there are some possible conclusions. People who feel little or no need or inclination to save and improve their employability, and do not recognise the importance of doing so, are at greater risk of financial problems and unemployment than those who do. Their behaviour

towards debt can be very easily seen also regarding their attitude towards education, improving employability and activation on the labour market.

Two attitudinal factors play a part. People who are easily tempted, or are short-term thinkers, are more likely to get into difficulties regarding debt and/or unemployment. People *easily tempted* are those who themselves admit that they often feel tempted, regularly buy things they do not really need and find it hard to make choices. *Short-term thinkers* are those who say they 'live for the present' and 'don't worry about future. They will probably behave in the same way - relatively recklessly - regarding their employment and job, and thus can be easily unemployed. Such attitudes are often deeply rooted in a person's character, and hence harder to change. However, they can be changed, if only in the long term and with adequate persistency. This is an area in which efforts to prevent people from getting into debt and/or unemployment may prove particularly successful.

In such a work there are three possible approaches: a) provide the right information and support as soon as a life event occurs, whether this is negative (unemployment, divorce) or positive (having children, moving away from home); b) show the users the long-term effect of the choices they make now; and c) motivate and help people start thinking of savings and regular employment as something attractive and important. In principle, two major instruments are available for managing or preventing over-indebtedness. First, the ex-ante instruments aimed at preventing the building up of unbearable risks into the system, while the second set of instruments are the ex-post ones, which are aimed at easing the burdens of the indebted households in order to maintain their ability to repay their financial obligations. The best approach tries to achieve a balance between the two groups of instruments in order to prevent much deeper problems.

5. CONCLUSIONS AND RECOMMENDATIONS

Personal (or household) over-indebtedness is a complex, multi-faceted, social phenomenon, caused and compounded by a combination of factors. Considerable drops in income caused by unemployment or business failure are among the most important causes of household over-indebtedness. Such indebtedness is a private and social problem, and if over-indebted persons are not able to meet their liabilities due to altered macroeconomic conditions (like unemployment growth or diminishing income), this might lead to a financial crisis. To avoid a situation in which creditors are losing their funds, and debtors often lose their proper place in society and become excluded, the EU developed counselling services for solving the problem of over-indebtedness and measures for debt repayment. These activities enable over-indebted people a new start in society and adequate economic participation.

A number of studies shows that approaches to money management and financial decisions can be important factors in regarding the extent to which individuals or households experience financial difficulties. For adequate measures, there is a need for more timely and robust data collection to facilitate and provide necessary information for optimal policymaking process within EU Member States. A range of public and private bodies could play a bigger and more cohesive role in data gathering, and there is a particular role for academia community both regarding specific research and independent evaluation of policy measures.

There are significant positive social and economic effects to Member States of adequate measures regarding prevention and reduction of over-indebtedness. For success of such

measures there is a need for a multidimensional and integrated government policy response aimed to prevent and resolve over-indebtedness, not just to alleviate or manage it.

To prevent multiple borrowing turning into over-indebtedness, financial institutions should use 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 possible labour 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 and/or the regional level.

The Governments should systematically organise consumer education and enforcement actions to enhance public awareness. The Governments can also help in organising free of charge, independent and reliable services on financial planning. Such activities are particularly important in providing advices and helping citizens who have financial problems and do not have sufficient knowledge to deal with the complex range of financial products.

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, Finally, it is crucial to ensure that the target groups are informed of its existence and have equal access to it and availability of the advisory bodies.

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