

Summary

Debt is an instrument commonly used by individuals and households to maintain their consumption levels over time. Individuals and households resort to indebtedness to a varying extent in different periods of their lives, depending on their income levels. A certain level of debt is inevitable for most households, particularly in the early periods of their life cycles. However, in less favourable macroeconomic conditions or due to certain events in the life of a family, the risk of a household not being able to meet their debt repayment obligations may increase, and some households find themselves in a situation where they cannot continue to repay their debt and thus become overindebted.

According to the seemingly least disputable definition of overindebtedness, a household is overindebted if it has difficulties repaying the debt, which means that, based on the expected income and other liquid assets, the debt is too large for the household to repay without reducing its other expenses below the minimum level. The debt thus becomes unsustainable and the household overindebted. Different countries approach the problem of overindebtedness differently. Countries that have adopted regulations on consumer bankruptcy and insolvency proceedings, and those that have set up networks of advice agencies for people in financial distress are the most advanced in this area.

The statistics on (over)indebtedness are relatively scant because data are incomplete (time series are not available) or are not comparable across countries. For some countries, no data are available at all (which is mostly also true of Slovenia). There is currently also no single definition of overindebtedness at the EU level. In April 2006, the European Commission therefore published an open call for a study that would provide the basis for a common definition of overindebtedness in the EU and establish a common methodology for data collection.

The terms indebtedness and overindebtedness should not be confused, although they are sometimes treated as one and the same notion in the literature, or indebtedness is carelessly used in the sense of overindebtedness. Due to its correlation with consumption and consequently with economic growth, indebtedness is yet another element of a healthy economy. Overindebtedness, on the other hand, indicates a financial crisis in households that has a direct or indirect effect on the economy as a whole.

Given the strong impact of private consumption on economic growth, indebtedness has significant macroeconomic implications, and conversely – macroeconomic conditions themselves affect the level of indebtedness (through factors such as interest rates, housing prices, unemployment, to name but a few). Over the past two or three decades, developed countries have been facing increased household indebtedness as a result of the deregulation of financial markets, the declining interest rates and the development of financial services that have removed the liquidity constraints on households.

In Slovenia, indebtedness and over-indebtedness are not analysed systematically. There is still no official definition of overindebtedness and there are problems with data availability – due to the low frequency of data publication and the time-consuming collection of other data, indebtedness can only be measured on the basis of data on loans and savings in banks. This method, however, is no longer very objective because financial markets have evolved, both in terms of the loan

supply and in terms of the new possibilities for wealth accumulation. There are no published data on credit card debt, secured and unsecured debt, and the share of non-performing loans (i.e. those not being repaid) or arrears, to mention only those data that have been analysed in various studies for several countries. Nevertheless, Slovenia has already adopted some measures to enhance the legal protection of consumers (the Consumer Credit Act, the Execution of Judgements in Civil Matters and Insurance of Claims Act, the Protection of Buyers of Apartments and Single Occupancy Buildings Act, all adopted in 2004, and the introduction of the registration of 'non-banking' creditors with the Consumer Protection Office), which reduce the possibility of the population's overindebtedness.

Key words: indebtedness, overindebtedness, debt, loans, borrowing, households, consumption, measuring, measures, life-cycle theory, macroeconomic implications, housing prices, interest rates, unemployment, social exclusion, consumer bankruptcy, consumer insolvency, debt advice, consumer protection, Slovenia, EU.