

Addressing households' indebtedness: Slovakia is building a network of debt advisory services

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Slovakia has had underdeveloped debt advisory services for a long time and has one of the highest growth figures for household debt to GDP in the EU. In 2020, however, the Ministry of Labour, Social Affairs and Family launched a pilot project, with the aim to make available free debt advisory services providing economic, legal and psychological assistance. In January 2022 six regional offices opened, and the plan is to build a network of 46 offices by the end of the year.



Description

Debts can help households to maintain their living standards or respond to economic difficulties. However, they can also represent a huge financial burden, which can prevent basic needs being met or even lead to loss of housing. In Slovakia, the overall level of household debt has increased rapidly in recent years. As explained by the European Commission (2019), "Slovakia recorded the highest growth in terms of household debt to GDP in the EU in 2017 and in the first half of 2018". Most of this debt consists of mortgage loans, reflecting the high proportion of home ownership in the country: in 2020, 92% of households owned their dwelling in Slovakia as opposed to 70% for the EU-27 as a whole; Romania is the only Member State with a higher recorded percentage (96%) (Source: Eurostat, EU-SILC, ILC_LVHO02). The debt has continued to rise during the pandemic, fuelled mainly by increasing demand for mortgage loans (National Bank of Slovakia, 2021).

Not all households manage to meet their financial obligations. In 2020, 6.7% of the population in Slovakia were in arrears with their mortgage, rent, utility bills, or hire purchase payments. Poverty increases this risk: 20.5% of persons below the income poverty threshold had such debts and delayed payments. Poor households with children were also significantly more likely to face this situation (23.6%) even if poor households without children were also at high risk (14.2%). (Source: Eurostat, EU-SILC, ILC_MDES05)

Public policy has to address households' over-indebtedness, as it is a serious cause as well as a consequence of poverty. One

of the possible measures is debt counselling, which can help households manage their debt. In Slovakia, debt advisory services have been underdeveloped for a long time. According to a comparative report prepared by Eurofound (2020), Slovakia belongs to the countries with "sporadic debt advice".

To some extent, debt counselling has been provided by NGOs as part of the so-called field social work, with a focus on the most vulnerable groups, including homeless people and people living in marginalised Roma communities. In March 2017, the Centre for Legal Assistance, a public body providing free-of-charge legal assistance to people in need, started to provide systematic advice and assistance with personal bankruptcy. The "personal bankruptcy" option, as a tool for household debt settlement, has existed since 2006. In 2017, its conditions were relaxed, its accessibility increased, and systematic assistance was launched for people living in poverty. However, the activities of the Centre for Legal Assistance do not go beyond help with bankruptcy. The Centre does not provide systematic debt counselling services or help with debt management.

In 2020, a pilot project called "Free Debt Advice" (*Bezplatné dlhové poradenstvo*) was launched by the Ministry of Labour, Social Affairs and Family. As part of the project, a debt advisory service was established in the capital city Bratislava in 2020 and in the regional-capital city Prešov in 2021. In January 2022 six regional offices opened, with a view to establishing a network of 46 offices, which will cover all regions of Slovakia by the end of 2022.

The debt advisory service is provided free of charge and includes three forms of assistance: economic, legal and

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psychological. Economic assistance starts with an analysis of a household's debt situation, as well as its income and expenditure patterns. Then, ways of optimising the household budget are recommended. Legal assistance focuses on an analysis of the existing contractual obligations. Psychological assistance helps with the consequences of over-indebtedness on the mental health of household members and helps them to develop strategies to cope with financial and mental stress as well as providing support for new behaviour patterns. It is expected that the combination of these three forms of assistance will help to develop effective and sustainable solutions for the households.

At the beginning of the pilot, the debt advisory service was provided, in particular, to jobseekers registered at labour offices and other clients seeking other forms of help. Now, the service is open to all people, irrespective of income, labour market status or level of indebtedness.

Outlook and commentary

The lack of accessible debt counselling services was a serious problem for indebted households. As activities of the NGOs were limited in their scope and coverage, they could only help a limited number of households. The launch of a public debt advisory service represents a crucial step

forward. Importantly, it encompasses not only economic management of debt, but also focuses on debt's psychosocial consequences. Evaluation of the service provision and its standards during the pilot phase of the project will be a key factor for the future success of the service.

Adequate geographical coverage is vital to make the service accessible, as transport-related costs can hamper the use of the services by indebted households living in remote areas. This argument has been recently supported by a study of the Institute for Social Policy (2021), which shows the positive impact of geographical proximity of the Centre for Legal Assistance's offices on take-up of their help with personal bankruptcy. As there are currently only eight offices (the Bratislava and Prešov offices created in 2020 and 2021 respectively, and six offices created so far in 2022), it is necessary to ensure that the planned number of 46 offices is reached.

In addition to building a network of debt services, policy makers should pay more attention to the structural causes of over-indebtedness, and also to preventive measures. Some steps are under way as part of the national strategy for fighting homelessness which is currently being prepared by the Ministry of Family, Social Affairs and Family.

Further reading

Eurofound (2020), Addressing household over-indebtedness. Publications Office of the European Union, Luxembourg.

European Commission (2019), [Country Report Slovakia](#) 2019

Institute for Social Policy (2021), Vplyv dostupnosti Centier právnej pomoci na bankrotovosť [Impact of accessibility of the Centre of Legal Assistance's offices on personal bankruptcy rate].

National Bank of Slovakia (2021), [Press conference on financial stability](#) (29 November 2021)

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