

OVER INDEBTEDNESS IN BULGARIA

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Credit indebtedness of Bulgarian citizens is relatively new for the country, which has developed very rapidly, especially after the second half of the past decade. Bulgarians actively started to use different credit products, offered by the banks. This phenomenon was fueled by the favorable economic conditions in the country and the changes in consumer habits and aspirations. Moreover massive access to credit can be considered as a factor of economic growth. Financial system supervisory authorities proved not to be careful. There have been checks and issued prescriptions, but not a radical change and control. **Non bank financial institutions must be regulated not under the Law on Consumer Protection**, but by the Financial Supervision Commission. The requirements towards them are to move from registration to licensing and that with higher requirements, including to their own capital. **In October 2013 was adopted changes on the Law on Consumer Protection**, under which loans of 400 BGN (200) EUR) pass under the general regulation. **Now the non banks financial institutions** comply with the Law as interests on quick loans do not exceed the specified ceiling, but credits are more expensive, charged with additional fees. Also, fast loans are offered with much more requirements towards clients.

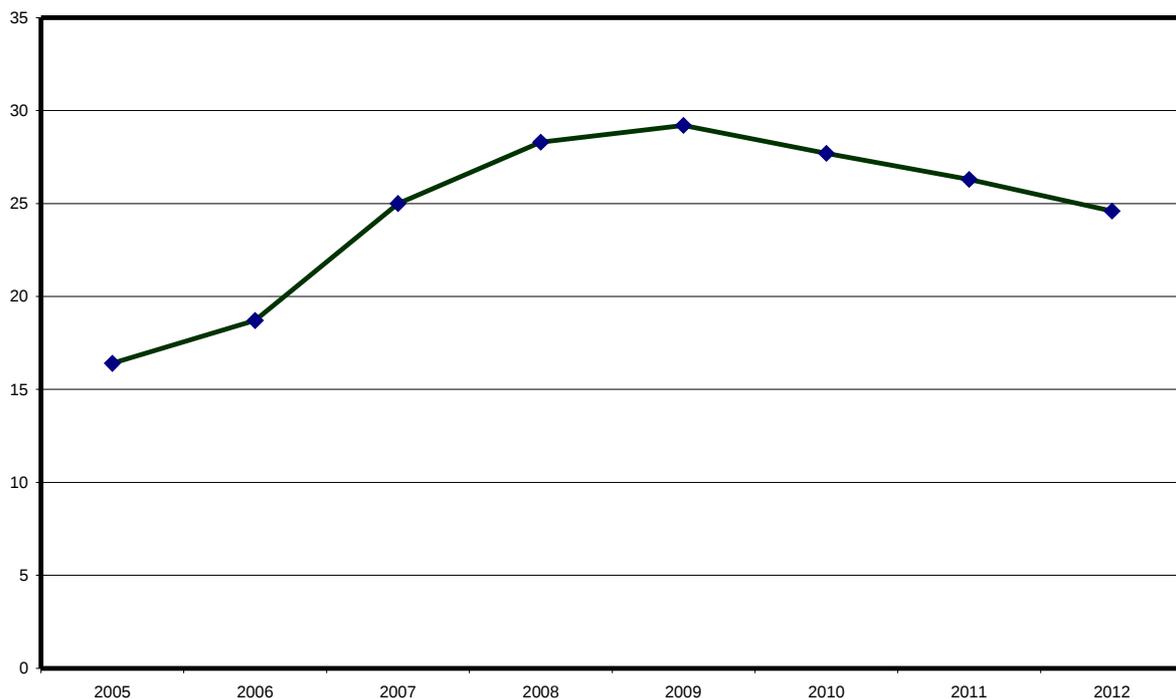


Fig.1 Credits to households as a share of GDP, In %

Source: BNB

The pressure of the monopolies is larger than that of the banks in Bulgaria, however the indebtedness of people towards banks and non-bank institutions remain really a serious problem and the government is already taking steps to address it. According the studies

(Council of Ministers) the most affected are about 10% of the households, which are characterized by a very low income, with at least one unemployed and with at least six months unpaid installments on loans. Those households will be the main target group of the Bulgarian Government in terms of resolving the problems with indebtedness.

In Bulgaria we have a serious problem of over-indebtedness. The Institute of Sociology at Bulgarian had a few years ago a study that showed that most people do not have obligations to the banks, as we would expect, and social security contributions, accounts and more. We are not the only EU country that has no good statistics on this and no legal definition of what constitutes indebtedness. But there Eurostat data that came out two weeks ago that Bulgaria is among the countries with the highest indebtedness of households. Since 2007 consumer credit is regulated in Bulgaria, when the country adopted European legislation on the topic. However, the so called “fast loans” to over 400 BGN (200 EUR), offered namely by non-banks financial institutions remained an unregulated area. Interests charged on those types of fast credits are so great, sometimes to over 300%, which it leads to usury.

In Bulgaria there is a lack of serious analysis on over indebtedness, but in the post crisis period it arose as a major social, financial and economic problem. We are not the only EU country that has no good statistics on this and no legal definition of what constitutes indebtedness. But Eurostat data that came out in October 2013 demonstrated that Bulgaria is among the countries with the highest indebtedness of households. A study (done by the Institute of Sociology in 2010-2011) showed that most people do not have financial obligations towards banks, but social security contributions, utility accounts and more others due payments.

68% of people who take loans are not expected to improve their situation, but another big part believes it will get worse. When indebted people is no longer able to service loans, they first shrink costs then seek help from relatives and friends, and very few of them seek dialogue with the creditors.

30% of the bad credits are at debtors from Sofia.42% can be attributed to debtors living in the big regional canters of Bulgaria. After 2009 the situation is changing, now every 4th bad credit is attributed to debtors in regional centers. The main reasons for late payments and default on obligations of debtors are of generally of 2 types. The 2 types of default are financial by nature. One of them is a chronic shortage of funds and income. Some of the debtors proceed to unilateral renegotiation of the loan by the bank creditor. The second reason is related with the negative change in the unfortunate formation of the household income - delayed payment of wages, job loss, unforeseen healthcare costs, etc.

That is why a vast campaign of financial education is starting in the country under the auspices of the Ministry of labour and social policy. Some special measures will be implemented for the over indebted households, for example the creation of specialised entities capable to deliver councils and other advices to over indebted households.

A new law on over indebtedness will be launched for the regulation of personal bankruptcies. It will give opportunities to resolve the indebtedness of households with the participation of borrowers and creditors. A regulation (according UK practice) will be introduced with the purpose to create an institution outside judicial authorities to resolve promptly controversies between lenders and borrowers in faster time and with due regard to the interests of both parties.