



# ESPN – Flash report

## 2015/8

### Government's "Fresh Start" Agreement for Indebted Citizens

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Indebted Citizens**

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<b>Theme(s):</b>	<i>Social Benefits, Minimum income and Basic income</i>
<b>Title:</b>	<b>Government's "Fresh Start" Agreement for Indebted Citizens</b>
<b>Category:</b>	<i>One-off Policy Measure</i>
<b>Abstract:</b>	<p>Through an agreement with a number of major creditors, both private and public, the Government of Croatia has introduced a one-off scheme to write-off the debts of up to 60,000 of its poorest citizens. To qualify for the scheme, those in debt must have had their bank account blocked for at least a year on 30 September 2014. They should be recipients of social assistance or disability benefit, or have low household incomes. In addition, they should not have a total debt of more than 35,000 HRK (approximately EURO 4,577). Whilst the scheme has attracted a great deal of international attention (it was "breaking news" on several TV stations and created a hype on Twitter), its impact will depend on the precise number of beneficiaries. As a one-off measure it seems unlikely to contribute significantly to either reducing poverty and social exclusion or stimulating the economy. It may be largely a "populist" measure in an election year.</p>
<b>Description:</b>	<p>Following an agreement (Government of Croatia, 2015a), as at 9 February 2015, with 10 banks, 3 telecommunications operators, 33 cities, 18 municipalities, 3 state companies (TV, post, and electricity) and 3 private enterprises, the Government of Croatia has begun a scheme which is meant to wipe out the debts of some of Croatia's poorest citizens. The scheme, named "Fresh Start" (<i>Novi početak</i>), is a temporary, one-off measure. To qualify for the scheme, the state financial agency (FINA) must have on record that on 30 September 2014 the applicant had their bank account blocked for at least a year and owe all creditors no more than 35,000 HRK (currently EURO 4,577). Within this, the amount owed to state enterprises should not be more than 25,000 HRK and to banks, telecommunications operators and cities, not more than 10,000 HRK. The Government remains hopeful that more creditors will join the scheme before the deadline of 31 May 2015.</p> <p>Since 2 February 2015, beneficiaries of social benefits (minimum income benefit (the renamed basic social assistance), and basic invalidity benefit) can apply for the "Fresh start". As of 2 April 2015, citizens whose income in the previous three months has been below 2,500 HRK (EURO 326) for single person households, or less than 1,250 HRK (EURO 163) for each household member for households consisting of 2 or more adults, who have no property other than the one they live in and no savings, can also apply. Children are not taken into account in the calculation. Applications must be submitted by 30 June 2015.</p> <p>The Government claims that some 60,000 citizens will benefit from the scheme, because they have accounts that have been blocked for over a</p>

	<p>year. However, the actual number will depend on the precise number who apply, meet the criteria, and have their requests granted. In addition, the total amount of debt written off, and the balance of costs between the central state, public enterprises, local government, and private companies (banks and telecommunications operators), also remains unclear. Some reports suggest that in the end only some 8,500 social assistance beneficiaries will qualify (Jutarnji list, 2015), out of 102,015 beneficiaries of social assistance and minimum income benefit and 23,361 beneficiaries of basic invalidity benefit at the end of December 2014.</p> <p>The Government has produced figures that on 30 September 2014 there were a total of 75,527 citizens whose accounts had been blocked for more than a year and who owed less than 10,000 HRK. The total debt is some 210.4 m. HRK (EURO 27.5 m.), not including interest of some 113.4m. HRK (EURO 14.8 m.). When all those who owe up to 35,000 HRK are included, the total amount, including interest reaches some 2.18 billion HRK (EURO 285 m.), although, only a fraction of this will be written off (Government of Croatia, 2015b). It is also not clear whether those who have a total amount of debt within the fixed limit but which includes creditors who are <i>not</i> part of the scheme, including some banks, credit agencies, and local authorities, will benefit from the “Fresh Start”; and, if so, whether they will have their accounts unblocked.</p> <p>The scheme was met with a mixed reception. Some opposition political parties see it as a “populist” measure during an election year. The issue of debt has risen up on the political agenda recently, with a candidate campaigning on the issue receiving 16% of the vote in the recent Presidential election. Some commentators have suggested that the scheme may result in banks raising interest rates for poorer citizens and also reward “irresponsible” spending. A counter-argument has been that unblocking a large number of citizens’ accounts may provide a boost to Croatia’s ailing economy and that, since these loans were unlikely to ever be recovered, the scheme involves no real loss to creditors.</p>
<p><b>Outlook &amp; Commentary:</b></p>	<p>Although the overall impact on poverty and social exclusion of “Fresh Start” is likely to be minimal, it does address what might be termed “new poverty and exclusion” which affects a growing number of households where long-term unemployment has produced an escalating crisis of household indebtedness. The impact of the measure will, in large part, depend on the number and profile of beneficiaries of the scheme, which will not be known until the second half of 2015. One interesting part of the scheme is that most of the costs will be borne by banks, telecommunications operators, public corporations and local government units, rather than by the state. The scheme may be of interest to other crisis-hit countries in Southern and South Eastern Europe where the indebtedness of a significant section of the population has become an important social and political issue. At the same time, such one-off schemes are no substitute for long-term and systematic investment in reducing poverty and social exclusion. They include no plans to help recipients of social assistance who owe more than the agreed limit, through unblocking accounts, reducing interest payments, and debt rescheduling.</p>

<p><b>Further reading:</b></p>	<p>Jutarnji list (2015) online, 1 January, web: <a href="http://www.jutarnji.hr/radi-se-registar-duznika-kojima-se-oprasta-dug--za-njih-nema-kartica-i-kredita/1265358/">http://www.jutarnji.hr/radi-se-registar-duznika-kojima-se-oprasta-dug--za-njih-nema-kartica-i-kredita/1265358/</a> (accessed 4 February 2015), Newspaper article, in Croatian</p> <p>Government of Croatia (2015a) Agreement (<i>Sporazum</i>), online, 20 January 2015 web: <a href="http://www.mspm.hr/djelokrug_aktivnosti/otpis_duga_novi_pocetak/pozi_v_vjerovnicima_da_pristupe_sporazumu">http://www.mspm.hr/djelokrug_aktivnosti/otpis_duga_novi_pocetak/pozi_v_vjerovnicima_da_pristupe_sporazumu</a> (accessed 27 February 2015), Government Document, in Croatian only.</p> <p>Government of Croatia (2015) online, 3 February 2015 web: <a href="https://vlada.gov.hr/novi-pocetak-za-socijalno-najugrozenije-gradjane/16130">https://vlada.gov.hr/novi-pocetak-za-socijalno-najugrozenije-gradjane/16130</a> (accessed 4 February 2015) , Government Document, in Croatian only.</p>
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