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## Personal Bankruptcy in the Capital City Region and South Bohemian Region in the Czech Republic

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### Abstract

Personal bankruptcy, as a process of debt relief, is very popular among those who want to solve their complicated financial situation nowadays. It is also one of the ways how insolvency can be declared in the Czech Republic. There are two ways of processing personal bankruptcy: firstly debts of an individual can be repaid (partial or whole) by selling some of the debtor's assets. Secondly, depending on the debtor's income, part of the debt can be repaid through repayment plan. In this research it is not defined by which of these two ways is personal bankruptcy handled, but it concentrates on structure of debtors in particular regions of the Czech Republic such as gender, age, education and income. This paper is also focused on comparison of above mentioned characteristics between regions.

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*Keywords:* Personal bankruptcy; Debtor, Insolvency; Czech Republic; Debt relief; Creditor

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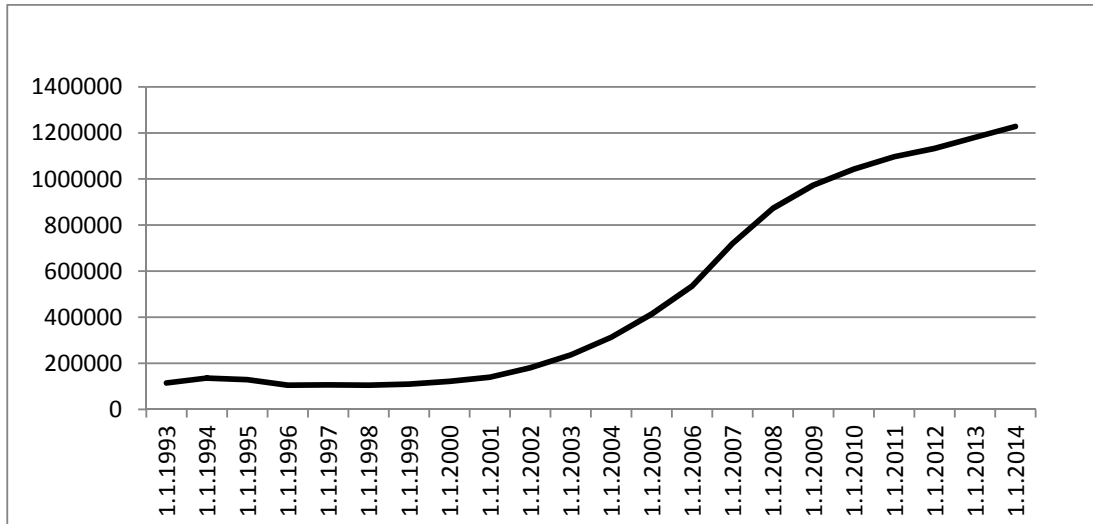
### 1. Introduction

The amount of household loans has been significantly increasing in the last decade in the Czech Republic. This growth is caused especially by low financial literacy of population. Therefore households are taking loans despite their inability to repay them in the future. It can be said that apart from financial literacy, there is also a lack of responsibility to their future life (and future life of their closest in many cases). For these cases, there is possibility of debt relief listed in the law number 182/2006 Sb. (Insolvency Act, 2008) and an opportunity of new beginning.

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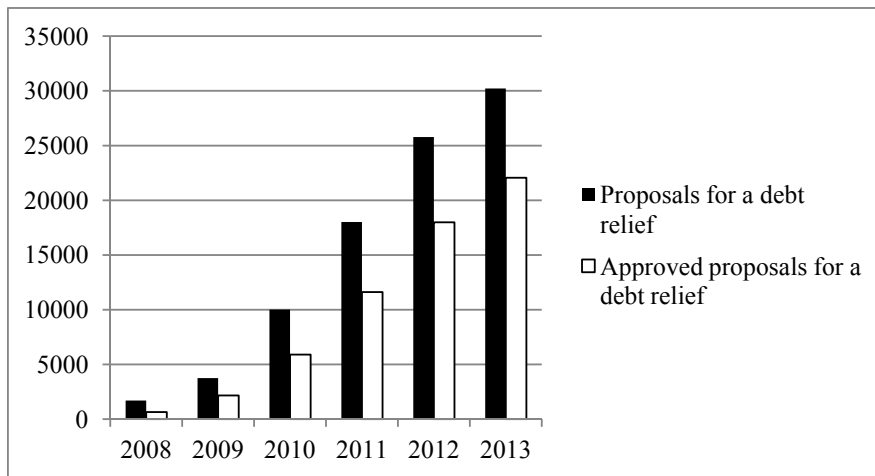


Source: Czech National Bank, 2015

Fig. 1: Development of loans in the Czech Republic.

Even though Figure 1 illustrates rather swiftly rising amount of loans lent to households, other data imply that overall ratio of private debt to GDP has been quite steady between years 1995-2011 and has oscillated around 87 % of GDP. In comparison to other European countries examined, only in Poland the ratio was lower. (Izák, V., 2014). However, OECD data suggest that there was no country in Europe (unfortunately the Czech Republic was not a part of this research) where there was lower ratio of overall households debts to GDP in year 2010 than in year 1995. In all countries the ratio was steadily growing over the years. We could assume that in the Czech Republic the development was similar. (Izák, V., 2012) This confirms the data from Czech National Bank.

“Personal bankruptcy in the Czech population increases by 30% annually, and personal bankruptcy is a new approach to debt relief.” (Paseková, M., 2013).



Source: Ministry of Justice of the Czech Republic, 2014b

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