

CHAPTER 8

INDEBTEDNESS OF POLISH HOUSEHOLDS IN THE LIGHT OF CONSUMER BANKRUPTCY ACT

Introduction

Market behaviour displayed by household members is determined by many factors. On the one hand, it reflects biological needs they wish to satisfy, has effect on the feeling of security and allows to stress their identity. On the other hand, it helps them manifest status and prestige they have acquired. Taken psychological point of view into consideration, such behaviour may help relieve stress, but also enables one to manage his/her time effectively (Garbarski, 1998, pp.14-15).

Purchasing decisions taken by households depend on individual preferences of their members, and may also result from needs expressed by the household as a whole. Factors determining purchasing behaviour displayed by consumers allow to determine quantitative and qualitative changes in the structure of household expenses. As far as direct determinants shaping market decisions made by household members are concerned, economic and non-economic factors can be mentioned. Economic factors are prices of goods and services, household income level, its savings and debt, market supply as well as the functioning and influence of marketing instruments. On the contrary, non-economic factors involve demographic determinants (which examine the influence of age, gender, size of household, marital status of consumers and their anthropometric characteristics on final consumer decision), psychological determinants (i.e. motives, emotions, attitudes, norms and values, habits and opinions that govern people while making purchasing decision) and social determinants (namely family, place of residence, education, the position held or professional standing, reference group, opinion leaders, social status, social class and culture) that also play major role in making choices (Kraśniński, Piasny, Szulce, 1984, pp. 171-200), (Nowak, 1995, 25-74), (Garbarski, 1998, pp. 21-48), (Kramer, 1997, pp. 40-70), (Mazurek – Łopacińska, 2002, p. 37)

As for direct economic determinants, income occupies an undoubtedly vital role in the functioning of household in the marketplace as it makes it possible to build up savings and take out any form of loan.

The article is aimed at analyzing the current indebtedness of Polish households as one of major factors determining their market behaviour. On the basis of data and reports concerning the research and surveys made available by the National Bank of Poland, Polish Bank Association, the National Debt Register and Public Opinion Research Centre, the author of the present paper will present the situation relating to credits and loans received by Polish households and show how it changed between 2004 and 2009. The discussion will also determine if Polish household behaviour may be subject to change as far as future indebtedness is concerned and if Consumer Bankruptcy Act introduced on March 31, 2009 will have any effect on existing state of affairs.

Forms of consumer indebtedness

Income largely determines consumption, and drop in income makes one satisfy his/her needs in accordance with the hierarchy established. At the same time, income level reflects

financial situation of individuals. Its source and level stem from the extent to which households have adjusted to market conditions. Every consumer has a basket of goods that he/she buys, and income generated should allow him/her to satisfy needs identified. Consumer income is a sum of income from gainful employment or social security benefits, savings and various types of income from capital as well as material resources such as fixed properties, works of art and durables reduced by liabilities¹. The analysis of household income enables to observe more and more common individual consumer patterns. Income level to be reached in a particular economy and prices of goods and services determine one's activity and allocation of labour resources, hence the structure of income earned by particular households as well.

The so-called free decision fund, created once biological needs (needs of lower order) are satisfied and all charges are paid, is vital in shaping the income-based consumption. At the same time, this fund allows to meet luxury needs (of higher order). It is a kind of surplus income to be used by consumer for buying products he/she could not afford in the past or for building up savings (Bywalec, Rudnicki, 1992, p. 62). Household savings are the difference between income and current consumption. Savings, often referred to as past income, are treated as resources taken from free decision fund in the past but not allocated. As a rule, they are allotted to the purchase of durables or goods of higher order which are extremely expensive.

Various forms of credits and loans, which affect the indebtedness level of household, are the opposite of savings built up. Indebtedness are financial resources received from financial institutions, mainly banks or other natural and legal persons, that allow to consume goods that households could not afford to buy because of low income. Taken the effect that credit has on shaping the structure of consumption, two perspectives may be mentioned. On the one hand, credit offers greater current purchasing opportunities and reduces existing barriers to demand. On the other hand, it limits future purchase as it is necessary to pay off loans raised.

As a rule, greater part of credit is allocated for the purchase of consumer durables such as cars or household goods. The amount of credit depends on its form and formalities to be completed, namely such terms of redemption as interest rate, instalment plan and repayment period. The less formalities necessary to receive loan, the lower the interest rate and the more favourable spreading of payments, the more people will decide to take out credit, due to which their future income will be subject to fall (Begg, Fischer, 1996, pp. 158-160).

The most popular forms of credit are as follows:

- cash credit – granted in cash, once, for a fixed period, allows to buy expensive goods or services;
- credit for instalment buying – i.e. non-cash form in the case of which borrower becomes the owner of a good and at the same time a debtor of firm that finances the purchase;
- leasing – similar to the aforementioned form, as a rule obtained by enterprises, hence households use this form of loan extremely seldom;
- collateral credit – i.e. cash generated in exchange for pawned items that household owns (Niemczyk, 1994, pp. 5-11).

On the basis of the above information concerning savings and loans, it can be concluded that credit boosts current consumption, whereas savings cut it down.

The effect that credit and savings have on the structure of household expenses is proven by a number of economics theories and hypotheses. The life cycle hypothesis formulated by Modigliani and Ando is one of them (Ando, Modigliani, 1957, pp. 99-124). According to its assumptions, people forecast their income. They divide the entire life into three stages at which they generate financial resources. The first stage, referring to young people, is

¹ On the basis of classification provided by Central Statistical Office (Households – chosen elements of population living conditions in the 1st half of 1999, 1999, pp. 12-13).

characterized by low income and high expenses. It is then that higher credits are taken out, whereas savings are not built up. The second stage consists in income rise due to which one can repay credits and generate free financial resources. It refers to middle-aged people who have already achieved social and professional status and financial stability. The third stage is time when people, mostly elderly and professionally non-active consumers, use their savings and do not receive credits.

Another hypothesis relating to the effect that savings and credits have on consumption is a permanent income hypothesis formulated by Friedman (Friedman, 1957). He has proven that consumption level depends on total income generated by households. If people believe that their income is too high in a given period, they increase their consumption only to a small extent (not to feel dramatic differences), and build up savings for times when income is lower and it is difficult to maintain previous consumption level.

In market economy realities, hypotheses developed by Keynes is also valid to some extent. He believes that income growth is accompanied with increasing extreme tendency toward saving and decreasing extreme tendency toward consumption. Empirical research has proven that this regularity is the case only from certain income level (Keynes, 2003).

Indebtedness of Polish households

According to data derived from the National Bank of Poland and questionnaire survey conducted by Polish Bank Association (ZBP) and Public Opinion Research Centre (CBOS), a certain number of Polish households live on credit. Income has tended to increase since last several years, which is accompanied by high consumption. Financial institutions finance a large part of purchase intended, and share of financial resources received from such institutions in the structure of Polish households is increasing every year. In recent years, many positive aspects favourable to raising loans have come into being. Such a state of affairs stemmed from economy development. In the period 2005-2007 conditions were favourable to taking out mortgages. Society had access to cash credits received right away. Many new financial institutions with flexible approach to customer were established. As for credit market, banks introduced new introductory offers, e.g. loans on presentation of identity card or granted to retired people. Furthermore, banks reduced their lending margins and improved customer service by investing in training and improving the professionalism of their advisers.

In the period of economy transformation, attitudes adopted by Polish households to credit services provided by banks were examined more than once. One of such surveys was conducted in 1995 and showed that about 40% of Poles did not use banking services and simply spent their financial resources or savings when they wanted to buy durables. If they did not have enough money, they took out loans at their workplaces, from family and acquaintances, bought on instalments, and only then took out bank credit (Żurawik, 1996).

In 1999 similar results were obtained in the survey carried out by Institute of Internal Market and Consumption. Loans and credits were allocated for improving financial situation of households. Nearly two thirds of respondents did so. Most people took out loans from workplace (62.4%), others bought on instalments (42.8%), borrowed from family and acquaintances (33.5%) and only then took out bank credit (28.3%) (Kuśmierczyk, Piskiewicz, 2001, p. 56).

After another five years, at the end of 2004, it turned out that Polish households bank indebtedness amounted to 109.7 billion Zlotys, which constituted 19.5 % of their gross income. Credits were mainly allocated for consumer goods, namely clothes, charges and food. The share of consumers declaring so amounted to 59% in the structure of credits granted to Polish households (Kamińska, <http://egospodarka.pl>).

During the entire 2004, household demand for consumer credits was subject to in-

crease, which stemmed from the fact that credit policy was softened due to more and more fierce competition from other financial institutions. In another few years, the total indebtedness level of the Polish households rose from 109.7 billion złotys in 2004 to 397 billion Zlotys in 2009, i.e. 3 ½ times. Table 1 shows changes in the level and dynamics of Polish household indebtedness in the period 2004-2009.

Table 1. Credits and loans received by households in the period 2004-2009 (in billion Zlotys)

Credit and loans	YEAR					
	2004	2005	2006	2007	2008	2009
Altogether* (in billion Zlotys)	109.7	136.0	182.9	253.2	367.0	397.0
Dynamics (2004 = 100)	100	124.0	166.7	230.8	334.5	361.9
of which: credits and loans allocated for real estate (in billion Zlotys)	37.3	52.3	80.9	121.8	197.9	215.2
Dynamics (2004=100)	100	140.2	216.9	326.5	530.6	576.9

*state of indebtedness is presented at the end of December every year; the above data refers to June 2009.

Source: own elaboration based on data derived from the National Bank of Poland (NBP)

In 2005 the percentage of households taking up loans dropped considerably compared to 2004, which was mainly caused by falling income of Polish households and declining demand for durables (Situation on the credit market (2004,2005), www.nbp.pl).

On the contrary, in 2006 households regained interest both in consumer and housing credits. Such a change in demand resulted from rising household income and also growing interest in property market and the purchase of new flats and houses. Forecasts made by banks about softening credit policy in the household sector and in the segment of long-term credits also had major effect on decisions made by people about receiving consumer credits (Situation on the credit market (2006), www.nbp.pl).

At the end of 2007 Polish credit policy was subject to change again. It was toughened in relation to households via higher credit margins and thorough verification of terms of granting consumer and housing credits. This resulted from analyses conducted by banks according to which credit risk was becoming serious. However, it should be added that competition between banks and financial institutions did not allow to introduce all the restrictions on granting credits, and hence in 2007 demand for housing credits declined only slightly, and in the case of consumer credits – it was subject to rise (Situation on the credit market (2007), www.nbp.pl).

In 2008, because of economic crisis, banks changed their credit policies both in relation to enterprises and households. As for the latter, credit margins, the amount of equity capital as well as non-interest costs of credit were increased in the case of housing credits. However, these limitations resulted in only slight decline in the number of credits granted in 2008 compared to 2007. Banks recorded growth in the number of consumer credits received, although credit margins became higher, particularly in the case of purchase burdened with substantial risk. Growing household demand for durables was the main reason behind such a state of affairs (Situation on the credit market (2008), www.nbp.pl).

In 2004 nearly two thirds of Poles stated they would never take out loan, yet in 2007 this percentage declined below 50%. On the other hand, 71% of consumers who have already received credit, in 2007 declared they were interested in other forms of loan. The most popular reasons behind borrowing money from financial institutions were the purchase of flats or house, a new or second-hand car, then household goods and consumer electronics, and finally

daily expenses. Nearly 17 million of citizens had at least one consumer credit or cash loan. Every third consumer had a credit card, and every fifth – bought cars on credit and used housing credit. Nearly half (i.e. 45%) of indebted Poles lived in Mazowieckie, Śląskie, Wielkopolskie and, Dolnośląskie voivodships.²

Furthermore, debit cards are becoming a more and more popular in Poland (see: Table 2). Every fifth Pole has such a card and although the share of this form of indebtedness in the total of credits has remained the same since 2004, its dynamics suggests that the number of people who run up a debt in this way is growing systematically. Nevertheless, it ought to be added that credit card is one of the most expensive credits on the market.

Table 2. Credits and loans related to the functioning of credits cards in households in the period 2004-2009 (in billion Zlotys)

Credits related to the functioning of credit cards	YEAR					
	2004	2005	2006	2007	2008	2009
Altogether* (in billion Zlotys)	2.9	4.3	5.8	8.9	12.7	13.8
Dynamics (2004 = 100)	100	148.3	200.0	306.9	437.9	475.9
Share in the total of credits granted (in %)	2.6%	3.2%	3.2%	3.5%	3.5%	3.5%

*state of indebtedness is presented at the end of December every year; the above data refers to June 2009.

Source: own elaboration based on data derived from NPB

In the period 2004-2007 Polish households took out more and more loans to make stock exchange investment (Table 3). Profits from such investment were supposed to guarantee at least the repayment of credit instalments. Nonetheless, due to global financial crisis faced in 2008 Polish households became less interested in such investment.

Table 3. Credits and loans allocated for the purchase of securities in households in the period 2004-2009 (in billion Zlotys)

Credits and loans allocated for the purchase of securities	YEAR					
	2004	2005	2006	2007	2008	2009
Altogether* (in billion Zlotys)	0.55	0.63	1.66	1.65	1.12	1.10
Dynamics (2004 = 100)	100	114.5	301.8	300.0	203.6	200.0
Share in the total of credits granted (in %)	0.5%	0.5%	0.9%	0.7%	0.3%	0.3%

*state of indebtedness is presented at the end of December every year; the above data refers to June 2009.

Source: own elaboration based on data derived from NPB

Despite a marked tendency toward growing total indebtedness, Poles are generally satisfied with life – as declared by nearly three fourth (73.4%) of respondents. Every fourth Pole (24.2%) complains about low standard of living and over two fifths are dissatisfied with their income level (43.7%). Half of households have not noticed any major changes in their

² Based on publications by Press Archive (Life at interest, Dolce Vita on hire purchase, Record growth rate of Polish households' indebtedness Polish Bank Association, www.zbp.pl).

standard of living, yet nearly one third did, and one fifth declared that their financial situation deteriorated. According to the survey conducted by CBOS at the end of 2007, more than 40% of households took out credit or loan, whereas 58.5% declared they did not have such liabilities. Over 4% of respondents found it very difficult to repay credit instalments, and 37.4% paid off their loans or credits regularly. Among nearly 16 thousand people who had any liabilities, loans or credits raised in banks represented 86%. Second popular were loans from workplaces or provident fund (13.8%), third – credits granted by other credit (non-banking) institutions (8.3%), whereas fourth – loans from family, acquaintances and neighbours (7.5%). At the same time, 77% of respondents declared that their households had not built up any savings at all (Savings and debts of the Poles, 2008). Hence, it can be noticed that greater capital availability, flexible approach that banks adopted to their customers and not very high interest rates made Polish households treat their indebtedness as something completely natural, and living on credit had become common. However, it seems alarming that many households faced difficulty with repaying credits at that time, and yet even larger percentage was afraid of such a perspective.

There were several reasons behind growing indebtedness of Polish households in the period 2004-2009. In 2004 – particularly because Poland joined the European Union – unemployment rate declined, GDP was subject to growth and social mentality changed. At that time, banks offered attractive loan forms, and credit prices went down. As a result, the period 2004-2007 was characterized by a huge boom on credit markets, and particularly with reference to housing credits. Years 2008 and 2009 brought economic crisis and its consequences were also faced by banking sector. Despite growing number of credits granted, many indebted households found credit costs too high, which led to irregular repayment or made some households cease covering their liabilities with time.

Consumer Bankruptcy Act – chance or risk to households?

High debts and problems with their repayment may be a risk to the functioning of household on the market. Furthermore, household is exposed to other risks such as lack of market transparency, its depersonalization, mass sales, excessive emotional stimulation to make household members buy goods, low professionalism of poorly informed sellers, artificial creation of needs, aggressive and unfair advertising, differentiation of prices, market monopolization, low quality of products, defectiveness, and lack or deficiencies of consumer protection legislation (Kieźel, ed., 1999, pp. 223-224).

Growing indebtedness of Polish households, difficulty with repaying credits and loans faced by some borrowers and deficiencies of regulations protecting the households initiated discussion on the introduction of regulations thanks to which indebted households could declare their bankruptcy towards creditors. Households may declare bankruptcy due to legal regulations that are in operation in many EU Member States, namely in Germany, France, Finland, Belgium, Ireland, Spain, Luxembourg or Holland. Nevertheless, there is no uniform EU regulation in this scope.

Office of Competition and Consumer Protection (UOKiK), the main organ protecting consumer rights in Poland, has been calling for introducing consumer bankruptcy for a long time. The main reason behind such a demand was not only to enable a natural person to declare bankruptcy, but also to protect creditors' rights. Act of December 5, 2008 on amendments to – Bankruptcy and Reconstruction Act came into force on March 31, 2009 and introduced 'consumer bankruptcy' into Polish law. Consumer bankruptcy refers to whitewashing procedure offered to natural persons who do not manage business activity (Journal of Laws no 234, item 1572).

As provided by the Act, bankruptcy may be declared by natural persons who do not

conduct business activity and who became insolvent due to exceptional circumstances on which they had no effect, e.g. serious disease or loss of employment independent of them. Bankruptcy petition is submitted only by a debtor. Petition meeting formal requirements (including: debtor's name and surname, place of residence, circumstances that justify the petition and court fees) should be submitted in district court. Once it is examined, court's ruling on declaring debtor's insolvency is displayed in the courthouse and advertisement is placed in at least one Polish national daily. Furthermore, consumer bankruptcy procedure obliges court to collect information from the tax office to learn if debtor took any taxable legal action during last five years before submitting petition. Court also collects information from National Court Register on debtor's activity in commercial companies.

Once bankruptcy is declared, debtor's estate is auctioned by receiver or by debtor himself/herself under receiver's supervision. Debts are paid off thanks to financial resources received as a result of the auction. Significant aspect of the Act refers to resources collected from the sale of real estate (flat or detached house) owned by debtor. If it is necessary to sell a flat to repay debt, court allocates the amount that will allow debtor to rent a flat for a year, and the remaining sum of money from property sale will be allotted to creditors. If financial resources collected both from the property auction as well as sale of debtor's real estate do not cover liabilities, court arranges repayment schedule. However, repayment period cannot be longer than 5 years. Debts that will not be paid off within that period are subject to remittance, about which creditors are informed by the court during another trial. The amount of instalments and repayment period depend on income earned by debtor, current financial potential for paying off the debt and its amount. Once repayment schedule is arranged, bankrupt is obliged to provide the court with annual reports for previous calendar year on how they fulfil their obligations towards creditors. In his/her report, debtor shows: income generated, amounts repaid, assets possessed and tax return. What is more, debtor cannot receive new loans, credits or buy anything on instalment plan during the full repayment period.

If debtor faces difficulty with repaying debts, court may reschedule the debt via prolonging the settlement period, however no longer than two years. It is not possible to reduce the debt determined by court. If debtor's financial situation is subject to improvement, any creditor may present a motion to the court about changing the settlement period or increasing instalments paid.

Once debtor repays the debt in accordance with instalment schedule, court issues a ruling about remitting liabilities that debtor did not manage to meet and that were taken into account in instalment schedule, closes proceedings in bankruptcy and appoints creditor (creditors), title and sum of liability that is subject to remittance. Proceedings in bankruptcy, and hence remittance of debt (that has not been repaid) is closed at the instance of debtor during a trial the date of which is known to all the creditors.

The Act under discussion, commonly known as Consumer Bankruptcy Act, also provides that not every bankruptcy petition submitted by households is favourably investigated by court. Petitions from which it stems that debtor's insolvency was not caused independently of debtor or in exceptional circumstances (e.g. when debtor took on liabilities though he/she had already been insolvent or his/her employment contract was dissolved because of his/her fault or with his/her consent) are dismissed. Furthermore, if any other proceedings were brought against debtor during last ten years and a part or all his liabilities were remitted or when proceedings in bankruptcy were taken and not all creditors were paid off and debtor did not meet all his/her obligations, court will dismiss such a petition. Likewise, when bankruptcy or other proceedings were brought against debtor but were dismissed but not at the instance of creditors. If debtor conceals his/her property and do not hand it over to receiver as soon as in the course of bankruptcy proceedings, court may dismiss such a case. The same holds for a situation when debtor does not meet obligations incidental to repayment schedule or when

he/she conceals his/her income or property during repayment period.

As provided by the Act, every consumer may declare bankruptcy once in ten years.

Act of December 5, 2008 on amendments to Bankruptcy and Reconstruction Act on the one hand, allows to extend consumer protection rights in Poland, and on the other hand, does not allow to overuse bankruptcy procedure. The Act seems to guarantee protection to people who are in a dramatic situation. Another positive aspect is the fact that bankruptcy can be declared only by consumers who have more than one creditor and the fact that debtors are not restricted by any deadline for declaring insolvency. At the same time, a number of limitations to the Act should discourage those who treat bankruptcy as a way to get rid of credit liabilities. Each bankruptcy petition is incidental to immediate seizure of debtor's property by court. Furthermore, as soon as consumer bankruptcy is declared, only one course of action is possible, namely liquidation of debtor's property. At the same time, debtor loses right to manage his/her property. One more positive aspect of the Act is a method for loan or credit repayment as it is not complex, does not generate costs, and proceedings can be carried out fast (Anam, <http://www.firma.egospodarka.pl>).

Consumer who decides to exercise the right to declare bankruptcy and at the same time meets requirements imposed by the Act, must be aware that his/her situation will not be easy. Once bankruptcy is declared, financial situation of household will change completely. Sale of flat, guaranteed rent of flat for the period of one year, instalments paid off during several years in accordance with repayment schedule arranged, monitoring of financial situation to be carried out by court, and only then possible remittance of the remaining debt do not seem a very tempting perspective. What is more, unexpected amounts of cash, e.g. inheritance or win on the lottery, will be transferred to creditors. Nonetheless, change of job into a better paid one will not collide with and change repayment schedule.

As suggested by the reports, as soon as the Act came into force on March 31, 2009, 325 consumer bankruptcy petitions were submitted to economic departments for bankruptcy and reconstruction in Polish district courts in April and May. 103 cases were examined, yet courts did not declare any bankruptcy, which probably resulted from the fact that people submitting petitions did not understand rules of law. Petitioners probably expect that no execution proceedings will be commenced against them. Nevertheless, the Act provides that such proceedings are commenced by receiver instead of debt collector, the former of whom sells off debtor's property. Debts may be remitted only after five years. Bankruptcy petitions are written by elderly people themselves who do not make use of lawyers' services. Hence, formal inconsistencies with statutory criteria are common mistake. The most common formal flaws are as follows: no property register with approximate evaluation of particular elements, no list of creditors with their addresses and the amount of debt owed to each of them, no deadline for debt repayment and no list of security measures provided by creditors on debtor's property together with the evidence that such measures were taken, and, most of all, no written statement about the veracity of information included in the petition. Furthermore, consumers often deliver bankruptcy petitions when they remain heavily indebted only to one creditor – and this is not provided by the Act. In order to make it easier for indebted consumers to present bankruptcy petitions, a number of the Polish courts published special guides together with specimen of petitions and explanation (Piasecka – Sobakiewicz, <http://prawo.gazetaprawna.pl/artykuły>).

It is difficult to foresee to what extent indebted the Polish households will exercise the right to declare bankruptcy. The majority of Poles are trying to meet their liabilities on time. In June 2009 average credit liabilities amounted to 7237 Zlotys, i.e. increased by 601 Zlotys (by 9%) compared to the end of March 2009. According to data presented in InfoDług Report published by InfoMonitor Economic Information Bureau, credit arrears of Polish households (i.e. credit payment delay longer than 60 days) amount to nearly 10 billion Zlotys and are

owed by 1.36 million Polish borrowers. The total amount of back payments includes non-repaid credits, loans, leasing, and also telephone, electricity, gas and water charges, or rent. The amount of overdue debts has doubled since August 2007, and increased by 47% compared to May 2008. In June 2009 indebtedness amounted to precisely 9.87 billion Zlotys, in May 2008 – 6.73 billion Zlotys, whereas in August 2007 – 4.9 billion Zlotys (InfoDług, www.infomonitor.pl).

In 2009 the largest number of debtors, who failed to meet their liabilities temporarily, paid monthly instalments amounting to 2001-5000 zlotys, and nearly half of them (820 560, i.e. 46%) were "petty debtors" whose indebtedness did not exceed 2000 Zlotys. Furthermore, as suggested by the report, men face greater problem with repaying debt on time than women. This particularly refers to people aged 30-39 and the largest group of high-risk consumers live in Śląskie and Mazowieckie voivodships, generally in cities with over 500 000 inhabitants. The most indebted statistical person, who does not meet his/her liabilities, lives in Mazowieckie voivodship with estimated debt of more than 75 billion zlotys. What is more, as indicated by InfoDług report, Poles pay off their housing credits to a larger extent than any other form of loans (InfoDług, www.infomonitor.pl).

Conclusion

Households may be in debts to the bank, quasi-banking and non-banking institutions. As suggested by the aforementioned data on households, this often leads to excessive indebtedness and in the end to consumer insolvency. Taken considerable volume of indebtedness and its great dynamics into account, Consumer Bankruptcy Act seems a chance for those who assess their future financial ability rationally and well and cannot settle liabilities because of exceptional circumstances on which they have no effect. The Act under discussion allows such people to settle as many liabilities as possible, restore balance, live without debts in the future and may guarantee maintaining the hitherto achieved social status. Nevertheless, it should be stressed that solutions proposed by the Act are quite radical. Debtor ought to undergo the procedure of property liquidation which in practice is tantamount to the liquidation of household. At the first stage of bankruptcy process, debtor is left practically with nothing to live on. All his/her property is subject to liquidation – movables and real property, from flat to car as well as household goods and consumer electronics. He/she receives financial means for renting a flat for only a year, whereas debt repayment may last up to five years. Only after this time the rest of debt is remitted. Hence, right to consumer bankruptcy will be exercised by a few people.

Consumer Bankruptcy Act certainly does not protect those who raised and obtained credits/loans under false pretences, and also those who became insolvent through their fault. Furthermore, it should eliminate negative socio-economic phenomena via controlling if debtors are employed illegally (due to which they conceal their income), controlling other illegal sources of income generated by debtors, preventing the practice of transferring and handing over the property to third party, extorting debt repayment by means of violence or unlawful threats, and also curbing socially negative phenomena (for instance, alcohol abuse, domestic violence, aggression or weakening of social ties).

When asked if they believe in the sense of introducing regulations that would allow households to declare bankruptcy, the Poles state that such right should be exercised only when one is dealing with extremely difficult situation on which he/she has no effect. They oppose to enjoying the privileges offered by the Act anytime consumer wants, and particularly when he/she evades responsibility for his/her financial decisions. Another negative aspect is also the fact that the real costs of remitted debts are offloaded onto honest borrowers. Furthermore, policy pursued by banks will become unfavourable to households as they will

toughen terms of granting credits to protect themselves against consumer bankruptcy. Bankruptcy should be a final alternative for honest people who, due to incidents they had not effect on, face financial problems (Komu zaszkodzi upadłość konsumencka?, www.portfel.pl).

Nevertheless, the introduction of consumer bankruptcy is of major importance for the market as growing indebtedness of Polish consumers increases risk of their insolvency. What is more, Polish credit market is a bull market, despite clear indication of crisis. Analyzing current problems that Polish households have with repaying their credits, and although the number of credits granted is growing, it is vital to identify reasons behind such a state of affairs since each case is different. More importantly, consumer bankruptcy is a good solution for debt repayment both for debtor and creditor, which stems from the fact that it restricts action taken by debtor and creditor only to a small extent and is a sort of market transaction between sides interested, with a minimum involvement from the state. Still, it is crucial not to overuse this procedure. Major drawback of the Act is also lack of regulations that would allow to develop cooperation and conciliatory proceedings between debtor and creditors. Such regulations would provide both sides with freedom of arranging convenient repayment schedule or prevent from the auction of all property (often unprofitable to debtor). At the same time, it should be borne in mind that consumer bankruptcy may be a pretext for excessive consumption on credit and abuse. Consumers may take greater risk while raising credits, and, if necessary, will resort to bankruptcy. It currently poses a major risk both to households and the market because, as suggested by data, consumption on credit is still rising among Polish society.

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