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Business

Debt-trapped Czechs excluded as economy grows; debt soars

Exodus to grey jobs hurts economy, jeopardizes pensions

USTI NAD LABEM: Olga Petikova first borrowed a few hundred dollars in the 1990s to furnish her young family's apartment. Later, she turned to payday loans to make ends meet as her husband struggled to make his new business a success. The debt soared. Two decades on, she owes 2 million crowns ($86,938), 11 times her annual income, and is subject to 15 seizure orders on her property and much of the money reaching her bank account. Her case is not uncommon in the Czech Republic, now the richest of the European Union's ex-communist countries.

People in the same situation often work in the black market to avoid having to declare income that will be forfeited to repay their debts, aggravating a labor shortage cited by nearly two-thirds of companies as an obstacle to growth. Similar "debt traps"-the result of poor financial awareness, years of loose regulation of lenders, costly repossessions and tough laws on bankruptcy-also help fuel support for extremist politicians in poorer areas. Even small debts like unpaid fines or utility bills can grow into sums many can never repay. "I just tell my children to never do like I did," Petikova said. She now has a stable job but most of her salary goes on debt repayments. She gets by with help from her now-adult children.

At the end of 2017, 863,000 Czechs-nearly 10 percent of the adult population-faced at least one seizure order, meaning their income above a legal minimum can be redirected to cover debts and fees. Half of them faced four or more orders. A total 4.67 million of seizure orders were outstanding, including for companies, for debts with a face value of 239 billion crowns ($10.8 billion) - nearly 5 percent of GDP. In neighboring Germany, whose population is eight times larger, there were 2.48 million seizure orders, official data shows.

Seizures in Slovakia, with only half the Czech population, were even higher, at 3.76 million in late 2017, but personal bankruptcies had cut that to 2.89 million a year later. A recent survey showed some 60 percent of Czech companies see lack of skilled workers as an obstacle to growth, compared to a European average of 42 percent. While prospective workers are unwilling to labor for no gain, the paperwork required to employ a person with a seizure order is also a burden on companies, said Eva Velickova, a spokeswoman for the Czech Confederation of Industry. "The indebtedness of people is a problem for both society and the economy," Velickova said.

The tough Czech approach to debtors is rooted in the country's transformation from communism. Laws to encourage private enterprise adopted in the early 2000s made it easier for creditors to get their money back by paying a repossession agent to collect the debt. Agents' fees were once so lucrative that some offered to pay more than 100 percent of nominal value for hard-to-recover small debts, according to Daniel Hule of People in Need, a human rights group that focuses domestically on social exclusion.

"We let the law be bent against society, in favour of various interest groups. That is the main problem," Hule said. "Rather than (the Czech) population being delinquent, it is a relic of a bad system." Fees are lower now, but a standard seizure procedure can quickly transform a debt of around 1,000 crowns-the fine for riding public transport without a ticket-into about 10,500 crowns, according to a calculator on People In Need's website. In Germany, the equivalent figure would be about 3,900 crowns.

Seizure of income can leave debtors with as little as 6,225 crowns ($273.23) per month, a quarter of the average net wage for a single person. Half of seizures are for debts of 10,000 crowns or less. This can be boosted by welfare payments but those are lost as income rises-taking away any incentive to earn more. A 2016 study for the human rights minister said tens of thousands of people were working only illegally due to account seizures. "Debtors lose motivation not just to work harder, but to work at all, they often drift to the grey economy," said Ladislav Mincic, chief analyst at the Czech Chamber of Commerce. — Reuters

US weekly jobless claims tumble to near 49-year low

WASHINGTON: The number of Americans filing applications for jobless benefits tumbled to near 49-year lows last week, which could ease concerns about a slowdown in the labor market and economy. Other data yesterday showed import prices dropping by the most in more than three years in November as the cost of petroleum products tumbled and a strong dollar weighed on prices of other goods, pointing to subdued imported inflation.

Tightening labor market conditions bolster expectations that the Federal Reserve will raise interest rates at its Dec. 18-19 policy meeting. With inflation likely to remain tame through the first half of 2019, economists see fewer rate hikes next year. The Fed has increased borrowing costs three times this year.

Initial claims for state unemployment benefits dropped 27,000 to a seasonally adjusted 206,000 for the week ended Dec 8, the Labor Department said yesterday. Last week's decline in claims was the largest since April 2015. Claims hit 202,000 in mid-September, which was the lowest level since December 1969. Data for the prior week was revised to show 2,000 more applications received than previously reported. Economists polled by Reuters had forecast claims falling to 225,000 in the latest week. Claims shot up to an eight-month high of 235,000 during the week ended Nov. 24.

The Labor Department said only claims for Virginia were estimated last week. The four-week moving average of initial claims, considered a better measure of labor market trends as it irons out week-to-week volatility, fell 3,750 to 224,750 last week. While difficulties adjusting the data around holidays likely boosted applications in prior weeks, there were worries the labor market was losing momentum given financial market volatility, the fading stimulus from a $1.5 trillion tax cut package and the Trump administration's protectionist trade policy.

Last week's sharp drop in claims also suggests a slowdown in job growth in November was likely the result of worker shortages. Nonfarm payrolls increased by 155,000 jobs after surging by 237,000 in October. With the unemployment rate near a 49-year low of 3.7 percent, Fed officials view the labor market as being at or beyond full employment. US Treasury yields briefly edged up after the data. US stock index futures were trading higher while the dollar was slightly stronger against a basket of currencies.

In a second report yesterday, the Labor Department said import prices dropped 1.6 percent last month, the biggest decline since August 2015, after an unrevised 0.5 percent increase in October. Economists polled by Reuters had forecast import prices decreasing 0.9 percent in November. In the 12 months through November, import prices rose 0.7 percent. That was the smallest annual increase since November 2016 and followed a 3.3 percent rise in October.

The report came on the heels of data showing weak overall producer and consumer inflation readings in November. It supports economists' expectations that inflation could remain moderate through the first half of 2019. The Fed's preferred inflation measure, the core PCE price index excluding food and energy, increased 1.8 percent on a year-on-year basis in October, the smallest gain since February, after rising 1.9 percent in the prior month. It hit the US central bank's 2 percent target in March for the first time since April 2012. Most economists expect the Fed will raise interest rates twice next year, although traders expect no more than one rate increase. Last month, prices for imported fuels and lubricants tumbled 11.0 percent after rising 3.2 percent in October. — Reuters

VANCE: An employee works on the doors a Mercedes-Benz C-Class at the Mercedes-Benz US International factory in Vance, Alabama. — AFP

Ageing Japan: Dementia puts financial assets of the elderly at risk

TOKYO: Yumiko Okubo, 71, had forgotten how to heat up food. "What's a microwave?" she asked her husband, Eiichi. Yumiko was in the early stages of dementia, struggling with vocabulary and unable to teach the kimono-dressing classes she had run for 25 years. The difficulty with everyday tasks has made life challenging for her and Eiichi, who has been caring for her since 2008. But she is also unable to deal with her finances - a situation that experts say is increasingly common in fast-ageing Japan and that puts trillions of yen worth of assets at risk. Rika Kambayashi, a social worker in Kyoto, says she has seen many cases of dementia patients withdrawing large sums without a clear grasp of what they are doing or why.

In one example, she said, a woman in her 90s withdrew 20 million yen ($266,000) of her savings at a grandson's urging. "She was saying she withdrew nine or ten. It took me a while to realise she was talking about a number of banknote rolls," Kambayashi said. A roll is typically one hundred 10,000 yen notes. "It was clearly a case of abuse." Dementia has been diagnosed in more than 5 million Japanese. The government estimates that number will increase to 7 million to 8 million, or 6 to 7 percent of the total population, by 2030.

The OECD has a somewhat lower estimate that dementia will affect 3.8 percent of Japan's population by 2037, still the highest among the 35 OECD states and far above the average of 2.3 percent predicted for the group. Japanese with dementia will hold about 215 trillion yen ($2 trillion) in financial assets by 2030, compared with 143 trillion yen now, according to estimates by Dai-ichi Life Research. Many companies now face risks in doing business with people with dementia, whose families may return later to ask that the transaction be cancelled, said Jin Narumoto, professor of psychiatry at Kyoto Prefectural University of Medicine. — AFP