

## DEVELOPMENT OF INITIATED BANKRUPTCIES IN SLOVAKIA AND THE CZECH REPUBLIC

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### ABSTRACT

Nowadays, entrepreneurs can very easily find themselves in a bad financial situation. That is why it is essential to look for ways to help them effectively. However, this cannot be done without knowing the real situation in each country, which is the basis for creating the appropriate conditions. The study's main objective was to identify and compare the development of insolvency indicators representing the bankruptcy of entrepreneurs in Slovakia and the Czech Republic from the first quarter of 2017 to the second quarter of 2021. Descriptive analysis and primary research methods were used to achieve this objective. The analytical processing dealt with the indicator of initiated bankruptcies. A fluctuating decline was observed in both countries. In 2020, a slight increase was recorded, and a further increase can be expected due to the coronavirus disease 2019 (COVID-19) pandemic. 2018 and 2017 were the least positive years for Slovakia and the Czech Republic, respectively. The results indicated the need for interventions in the business environment of both countries to help entrepreneurs in bad situations.

**KEYWORDS:** bankruptcy, insolvency, business, development, entrepreneurs, Slovakia, Czech Republic

**JEL CLASSIFICATION:** K30, K35, P16

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### INTRODUCTION

The business environment is a dynamic organism, in which many entities operate to achieve an optimal level of competitiveness, performance, and development (Gruenbichler *et al.*, 2021; Kolkova, 2021; Stichhauerova *et al.*, 2021; Wang *et al.*, 2021). The truth is that each entity perceives the risk of the business environment differently. Therefore, it is necessary to constantly examine their entrepreneurial behaviour (Civelek *et al.*, 2021; Dvorský *et al.*, 2021b, Meekaewkunchorn *et al.*, 2021). In this context, some businesses may go out of business prematurely in the form of bankruptcy due to unhealthy behaviour. For these reasons, many authors have examined bankruptcy, which emphasizes the issue's importance (Khan *et al.*, 2021; Metzker *et al.*, 2021). The bankruptcy issue is all the more relevant because many risks in the business environment can threaten a company's operations and lead to undesirable situations (Dvorský *et al.*, 2020; Virglerova *et al.*, 2020). In addition, the ongoing coronavirus disease 2019 (COVID-19) pandemic is another threat to businesses (Dvorsky *et al.*, 2021a). The pandemic is forcing researchers and experts to pay more attention to businesses and their solvency, and Slovak and Czech businesses are no exception. Therefore, there is a clear need for research in this area in Slovak and Czech conditions.

At present, indebtedness is considered a common phenomenon in society, occurring in both developed and emerging economies. Companies, businessmen, and businesses across Europe show a slower rate of indebtedness than Slovak businesses, whose credit burden is growing more and more rapidly. Slovakia's position has not changed in light of the current coronavirus crisis since measures to prevent the spread of the disease have often led to the suspension of activities or even to the closure of establishments,

which meant zero income for businesses. The consequences of the coronavirus crisis are also slowly being felt within individual households, whose indebtedness has been rising excessively in recent years. It turns out that loans for basically anything are so popular in a society that they become unmanageable, leading to an inability to repay these debts. The reasons for not paying the debts include not only the loss of employment or a change in health status, but it turns out that the prevailing trend is a change in lifestyle or a low level of financial literacy in society. The light at the end of the tunnel for people in debt is the so-called "personal bankruptcy", which is gaining more and more interest every year. Personal bankruptcy is often applied for by people who are unable to repay their debts to creditors and find it difficult to plan their future in such a situation. The topic of "personal bankruptcy" receives very little attention in Slovakia, especially in comparison to the ever-increasing indebtedness. It is, therefore, important to open a discussion on this topic and provide up-to-date information to the widest possible audience. The term "personal bankruptcy" is not known in Slovak law, but it is primarily regulated by Act No. 7/2005 Coll. on Bankruptcy and Restructuring (hereinafter referred to as "ABR"), in particular in its fourth part entitled "Debt relief". Within the Slovak Republic, the institute of debt relief was introduced in 2006. The amendment to Act No. 377/2016, which entered into force on 1 March 2017, incorporated personal bankruptcy into the legal order, especially in the form of the conditions for declaring personal bankruptcy, which have been simplified (Explanatory Memorandum, 2017).

The structure of the study is as follows: the first section offers a literature review of the examined issue, the second section is devoted to methodological information, the third section presents the main results and their interpretations, the fourth section discusses these results, and the last fifth section provides a summary of the study.

## **1 THEORETICAL BACKGROUND**

### **1.1 Legislative Framework of Personal Bankruptcy in Slovakia**

Pospíšil *et al.* (2016) define bankruptcy as a situation where the debtor is insolvent and the insolvency must meet the requirement where the debtor is unable to repay liabilities to at least two creditors, each of whom has at least one outstanding monetary obligation. The authors supplemented this statement with a time definition when the debtor fails to meet its obligations at least 30 days after the due date to both creditors. An over-indebtedness occurs in the case of a person who is required to keep accounts under a special regulation, has more than one creditor and whose liabilities exceed the value of his assets. The determination of the value of assets and liabilities is based either on the accounting records or on the value determined by an expert report. However, the value determined by an expert report shall take precedence over the accounting value. The expected results of further asset management and further operation of the business are also taken into account if it can be assumed that it will be possible to continue the asset management and operation of the business. Related to the concept of over-indebtedness is the concept of debt relief, which Macek and Maliar (2009) define as a way of dissolution of a part of liabilities based on a legal claim and a legitimate fact. A legitimate fact is also a court decision on debt relief that occurs after the fulfillment of specified conditions, which are the termination of the previous bankruptcy proceedings together with the partial satisfaction of creditors at a rate set by the court. The debtor can choose bankruptcy in the form of a monetisation or a repayment plan based on his current financial situation and future projections. The essence of bankruptcy is based on the assumption that if the debtor has any assets, he must accept their monetisation, which will be used to satisfy creditors. If the court initiates bankruptcy proceedings, pending proceedings relating to the debts that are the subject of the bankruptcy proceedings must be discontinued. Execution proceedings or similar enforcement proceedings may not be initiated against assets subject to bankruptcy and, where proceedings are pending for the recovery of a debt, a decision must be taken without undue delay to discontinue those proceedings.

The declaration of bankruptcy causes the dissolution of the undivided co-ownership of spouses. One of the innovations in this area is the introduction of the institute of the unseizable value of the housing, which ensures that the debtor is protected against the total loss of the housing. The unseizable value of the housing protects the debtor only from the unsecured creditor and may take the form of EUR 10,000, for which the natural person can buy/lease a housing, or its minimum price of EUR 250, for which the natural person can secure a housing placement for 40 months after the sale of the housing (Mitaš, 2017). If the debtor uses the repayment plan as a method to pay his debts, he must meet the basic conditions, have regular income and at the same time his debts must not exceed his assets. This method is used if the debtor is presumed to be gainfully employed and is able to repay his debts on the basis of this income. A receiver in charge of examining the debtor's circumstances is appointed by the court. After examining the debtor's circumstances, the receiver submits to the court a proposal for the establishment of a repayment plan, which is to be determined in such a way that at least 30% of the debtor's debts are satisfied. The exact percentage of debts that the debtor will have to repay within 5 years will be determined by the court (Ficek, 2018).

The right to legal aid is enshrined in Article 47(2) of the Constitution of the Slovak Republic No. 460/1992 Coll. as a right of everyone to legal aid in proceedings before state authorities, public administration bodies or courts from the beginning of the proceedings under the conditions laid down by law. The right to legal aid is one of the fundamental rights and freedoms guaranteed by the Constitution. The Centre for Legal Aid provides legal aid to citizens at more than 40 locations, which the debtor can address according to his place of residence. The Centre for Legal Aid offices are located all over Slovakia. This organisation has the elements of a budgetary institution, which is connected to the state budget through the budget chapter of the Ministry of Justice of the Slovak Republic on the basis of Act No. 327/2005. This act also formulates the objective of this institution, which is to ensure access to justice also for socially disadvantaged citizens who are not able to use legal services on the market due to lack of finances. Representation by the Centre for Legal Aid or by a lawyer appointed by the Centre for Legal Aid is an obligation under the amendment to the ABR, already at the time of filing a petition for bankruptcy or a petition for the determination of a repayment plan, up to the moment of the appointment of a receiver by the court. As far as representation is concerned, the law provides that the debtor may be represented by a lawyer appointed by the Centre for the Legal Aid in the proceedings for debt relief in the form of repayment plan, but in the case of debt relief of the repayment plan, a different regime applies, namely that the lawyer may be nominated by the debtor himself in addition to the Centre for Legal Aid (Ďurková, 2017).

As of 1 January 2020, an amendment to the Commercial Code has entered into force, which introduced a new condition for personal bankruptcy. Until recently, a valid condition for initiating bankruptcy proceedings was the fact that the debtor's property is a subject of an execution, but this condition has been clarified. The condition for declaring proceedings is the execution lasting at least one year. The purpose of the change is to make it more difficult for dishonest debtors to speculate, since by acknowledging their debts, they were able to quickly bring about the fulfilment of the conditions for personal bankruptcy. The new legislation also clarifies the exercise of the receiver's powers, where the legal practice has taken a different approach to the receiver's power to review, for the benefit of the creditors affected by the debt relief, the debtor's conflicting acts or his honest intention. It is now clear that the receiver has such a power (although the receiver is still not entitled to propose the cancellation of the debt relief for dishonest intention). The fairness of the proposal is presumed if the debtor has made a sincere effort to resolve his debt within his ability and capacity, provides cooperation to creditors and the receiver, seeks to obtain another source of income or employment, and offers half of that income to his creditors to satisfy the debt or makes an effort to reintegrate into society.

## **1.2 Practical Framework of Personal Bankruptcy in Slovakia**

Personal bankruptcy should not be considered a negative phenomenon, although its effects on society are in many cases devastating. If company wants to achieve sustainable development, it is extremely important to see bankruptcy as a normal part of economic life. Kliestikova *et al.* (2017) believes that if the view of personal bankruptcy changes to a positive one, it may result in a new stimulus for innovation, investment as well as global welfare. However, this state of affairs is difficult to achieve without increasing the effectiveness of both national and international bankruptcy regulations. Currently, there are two alternatives in the territory of the Slovak Republic after the amendment of the law, by means of which debtors can get rid of their debts, namely bankruptcy proceedings or a repayment plan.

### 1.2.1 Bankruptcy proceedings

The debtor shall file a petition for the bankruptcy proceedings electronically via an electronic form sent to the electronic mailbox of the court along with annexes such as a list of assets, a declaration of insolvency, a list of related persons, a list of assets of higher value owned by the debtor in the last 3 years, proof of the conduct of execution or other enforcement proceedings not older than 30 days (for example, an extract from the Central Register of Executions), a curriculum vitae with a description of the current living situation.

Once the petition with the given annexes has been filed with the court, the so-called decision-making activity of the court begins. However, the court can only declare bankruptcy if the so-called procedural conditions under Section 167 of the ABR are met, and the court examines whether:

- the petition filed complies with the conditions laid down by law,
- the petition has been filed by an authorised person,
- the debtor is insolvent,
- the debtor is duly represented in accordance with the ABR,
- the declaration of bankruptcy is not precluded by a previous declaration of bankruptcy or the establishment of a repayment plan,
- an advance payment has been made to the Centre of Legal Aid Centre for the payment of the receiver's standard fee.

The court declares bankruptcy within 15 days of receipt of the petition and transfers the advance to the receiver's account (in the event of non-declaration of bankruptcy, it returns the advance to the Centre for Legal Aid), appoints a receiver and invites creditors to lodge their claims. The receiver acts in the name and on behalf of the debtor and has the right to dispose of the debtor's assets which are the subject of the bankruptcy proceedings. By declaring bankruptcy pursuant to the provisions of Section 167(b) of the ABR, the debtor has the right to use such assets, but is obliged to protect them from depreciation, damage, loss and to ensure that their value does not diminish. Pursuant to Section 167(j) of the ABR, the receiver shall prepare an inventory of the assets within 60 days of the declaration of bankruptcy. If he becomes aware of information about other assets of the debtor, he must immediately add such assets to the inventory, and he must publish any such change in the Commercial Gazette. The receiver shall also publish in the Commercial Gazette the objection of anyone who considers that the assets in question do not belong in the inventory, and such objection shall be published for 60 days. The monetisation of assets affects both movable and immovable property of the debtor. When it comes to immovable property, value is an important factor. Immovable properties of higher value are monetised at auctions in accordance with the Act on Voluntary Auctions. When immovable property is monetised at auction, the lowest bid, i.e. the amount determined by the first creditor registered on the property in question, is determined. If the subject of the auction is not encumbered by a security right, it may be the amount determined by the representative of the creditors. The receiver shall determine the estimated price of the housing. The value of the immovable property (housing) may also be offered to the creditor by submitting

an expert report, but at the same time he must pay an advance on the fee of the notary involved in verifying the conduct of the auction. The price of the property in question will be determined on the basis of the expert report submitted. However, if the auction is not successful, the creditor who submitted the expert report must pay the costs of monetisation (Ďurková, 2017).

The institute of the unseizable part of the housing, which was introduced by the amendment to the ABR, is important for the debtor. This means that if the market value of the housing does not reach the unseizable value determined by government decree, it will not be possible to divest the housing during the bankruptcy proceedings. The unseizable value of the immovable property - housing protects the debtor from unsecured creditors who do not have a security right over the subject of the monetisation. In practice, this means that if the creditor had exercised the security right over the housing established from the entire value of the property, the unseizable value of the housing would not apply. From the monetised value of the housing and after deducting the unseizable value of the debtor's housing, the receiver shall transfer the amount in question to a special account created in advance in the name of the debtor, but only the receiver shall have the right to deposit and transfer the funds. Since it is unseizable amount, pursuant to Article 167(o)(4) of the ABR, the amount transferred to the special account is not subject to bankruptcy, execution or other enforcement proceedings for a period of 36 months from the creation of the account. However, the debtor has the right to request the bank to withdraw funds in cash up to the amount determined by the government decree. With the debtor's consent, the property subject to bankruptcy or a part thereof may be redeemed at any time by the debtor's direct relative, sibling, spouse, or the municipality in whose cadastral territory the immovable property is located. In such a case, the unseizable value shall not be deposited in a special account of the debtor set up by the receiver but shall be set off against payments of the purchase price.

### **1.2.2 Repayment plan**

The instalment plan is an institute for debt relief, the characteristic feature of which is that unlike in bankruptcy proceedings, in the case of debt relief in the form of repayment plan, the creditor is not obliged to declare his claims. Therefore, the decision on debt relief does not include a list of individual claims, but only information on the percentage of debt satisfaction (Financial Administration, 2020). A condition for the use of debt relief in the form of a repayment plan is that the debtor must have a stable regular income, due to the ability to pay his debts. The debtor must provide a current inventory of the property, in which the debtor must include the identification data of the administrator of the residential building, if the non-residential premises are included in the list of assets. The maximum amount of the instalments determined must not exceed the debtor's expected income, reduced by the necessary expenses, which include the basic necessities of the debtor, the provision of housing and the fulfilment of maintenance obligations (Section 168(c)(4) of the ABR).

### **1.3 Doing business after the personal bankruptcy**

Probably the most frequently asked question within the examined issue is whether a natural person - businessman can go back to business after the debt relief. When it comes to trades, Act No. 455/1991 Coll. on Trade Licensing provides that a natural or legal person is not allowed to operate a trade if his property has been seized in the bankruptcy proceedings, for a period of three years from the end of the bankruptcy proceedings. If a businessman caused the bankruptcy or compulsory settlement intentionally, he may again operate the trade after five years from the full settlement of his obligations, which are bound by a valid court decision. However, this does not apply if the bankruptcy proceedings were caused by insolvency or criminal offense of a third party. The law provides for an exception which allows the Trade Licensing Office to waive the bankruptcy obstacle and allow the operation of a trade if the economic circumstances of a person and his conduct indicate that he will duly fulfil his obligations when operating a trade. If the court initiated bankruptcy proceedings on the businessman's property twice within five

years or if the bankruptcy was caused intentionally, the Trade Licensing Office cannot waive such obstacle (Act No. 455/1991). It is worth pointing out the inconsistency between the Act on Bankruptcy and Restructuring and the Act on Trade Licensing. The ABR provides for a debt relief once every 10 years while the Act on Trade Licensing gives the possibility of initiating the bankruptcy proceedings twice within 5 years.

## **2 METHODOLOGY**

The main objective of the study was to identify and compare the development of insolvency indicators representing the bankruptcy of entrepreneurs in Slovakia and the Czech Republic in the period from the first quarter of 2017 to the second quarter of 2021. In order to meet this objective, it was necessary:

- 1) to assess the development of indicators in terms of initiated bankruptcy proceedings in the Slovak Republic,
- 2) to assess the development of indicators in terms of initiated bankruptcy proceedings in the Czech Republic,
- 3) to compare the values achieved in the analysed countries.

The research was conducted for the period 2017 to 2021, with Slovakia and the Czech Republic representing the research subjects. The Slovak and Czech Republics, as two countries of the European Union (EU), share a common vision in the field of entrepreneurship and the development of the business environment. Also, they together formed one state with a market economy until 1993 and one state with a planned economy until 1989. In addition to its rich history, the Slovak and Czech Republics are also connected by the development of the legal environment, the fight against corruption and the desire to eliminate as far as possible the economic gap between them and the countries of Western Europe.

The research focused on the indicator of initiated bankruptcy proceedings. The data were collected from publicly available insolvency reports published on a monthly basis by Surveillence (Surveillence, 2021). These data were adjusted to a quarterly basis. At the time of their collection, data up to the second quarter of 2021 were available. Initiation of bankruptcy proceeding is when the court shall declare the bankruptcy within 15 days from the delivery of the petition and transfer the advance to the administrator's account, appoint the administrator and invite the creditors to register the claims. Sources of information on bankruptcy proceedings mainly come from insolvency registers and economic registers of business entities.

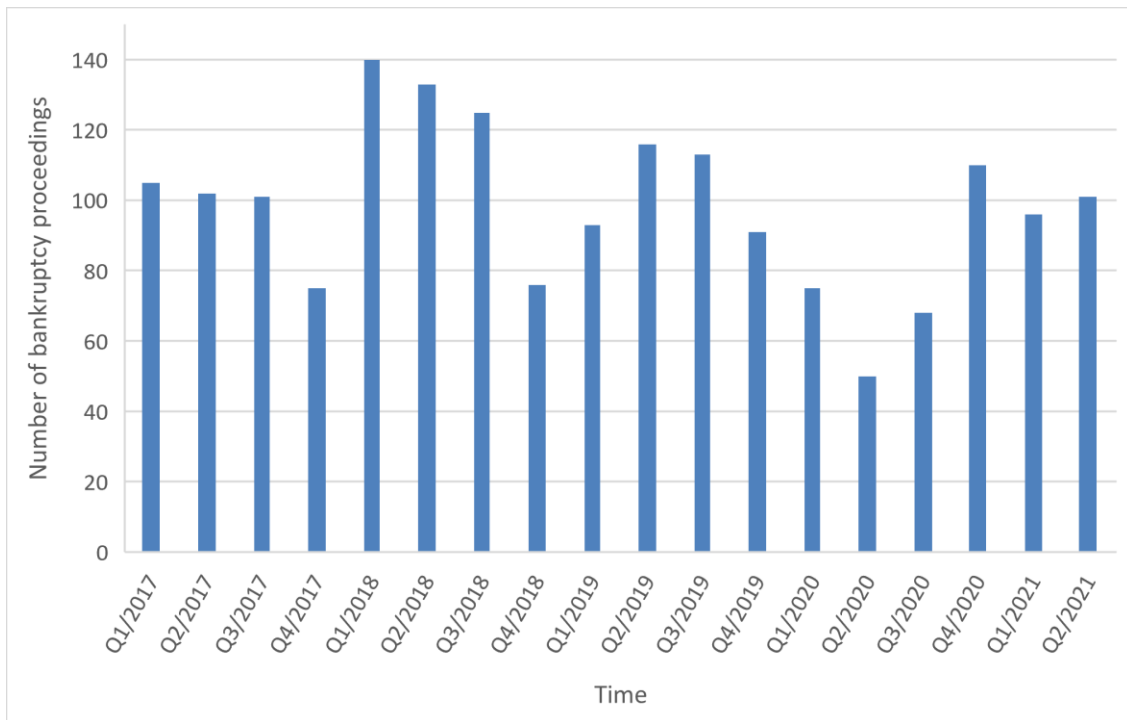
In order to achieve the main objective, the basic methods such as analysis, synthesis, induction, deduction and comparison were used in this study. Graphical presentations processed in Microsoft Excel as well as descriptive analysis using basic statistical characteristics (mean, median, maximum, minimum and standard deviation) were also used.

## **3 RESULTS**

This section deals with data analysis and provides results numbers in Slovakia and the Czech Republic for the period 2017-2021. Interpretations of the results are based on the numbers of initiated bankruptcy proceedings, allowing a closer insight to the issue. At this point, an increased attention should be paid to 2017, when new legislation came into force and increased an interest in personal bankruptcy.

In Figure 1, we see the trend of initiated bankruptcy proceedings in Slovakia.

Figure 1 Initiated bankruptcy proceedings in Slovakia (2017-2021)



(Source: Own elaboration)

In Figure 1, the first three quarters of 2017 fluctuate in the range of 101 to 105, thus we can observe a steady trend of development until 2018. In 2018, the highest number of bankruptcy proceedings have been initiated in Slovakia so far, which can be attributed to the intention of the Ministry of Justice from 2017, which was to facilitate the process of personal bankruptcy. While the first three quarters of 2018 indicated the success of the Ministry of Justice, the fourth quarter saw a significant decline of up to 48% compared to the first quarter of that year. In a similar vein, we saw a decline in 2019 compared to the year before. A significant milestone was reached at the beginning of 2020, when we observed a decrease in the number of new personal bankruptcies across the first three quarters, but at the start of the fourth quarter, the numbers are starting to revert back to the values from 2019. This upward trend is believed to be the result of the worldwide coronavirus pandemic, and despite the easing of restrictions in the summer, the first wave of coronavirus has radically affected many businesses, which, whether due to their own losses, secondary insolvency or the loss of customers, have resorted to such a solution to their situation.

Table 1 Descriptive statistics of the indicator of initiated bankruptcy for Slovakia (2017-2021)

| Statistics         | 2017 | 2018  | 2019  | 2020 | 2021 |
|--------------------|------|-------|-------|------|------|
| Maximum            | 105  | 140   | 116   | 110  | 101  |
| Minimum            | 75   | 76    | 91    | 68   | 96   |
| Mean               | 95.7 | 118.5 | 103.2 | 76   | 98.5 |
| Median             | 90   | 108   | 103.5 | 92.5 | 98.5 |
| Standard deviation | 13.9 | 28.9  | 13,1  | 25.1 | 3.5  |

(Source: Own elaboration)

In Table 1 we can see 5 statistical indicators that we have calculated on the basis of the above data of the indicator of initiated bankruptcy proceedings in Slovakia. The maximum value of the indicator in 2017 was 105, which was measured in 1<sup>st</sup> quarter, while the minimum was 75, which was measured in 4<sup>th</sup> quarter. The median was 90. The standard deviation was 13.9 and the average value of initiated bankruptcy proceedings was 95.7. In 2018, a record number of bankruptcy petitions were filed in Slovakia and therefore the average number of initiated bankruptcy proceedings rose to 118.5, with a peak of 140 in the first quarter of the year, a minimum of 76 in the fourth quarter, a standard deviation of 28.9 and a median of 108. In 2019, the maximum number of initiated bankruptcy proceedings per quarter fell to 116, but the minimum number of initiated bankruptcy proceedings per quarter rose by almost a third to 91. The median remains just above 100, at 103.5. The standard deviation dropped significantly below the value from the previous year 2017 to 13.07. The average number of petitions for bankruptcy for 2019 has stabilized at 103.2. As we approach 2020, we observe a decrease in the number of new personal bankruptcies across the first three quarters with a minimum value of 68, but with the onset of the fourth quarter, the numbers begin to return to values with a maximum value of 110. The average number of initiated bankruptcy proceedings has fallen year-on-year to 76. For 2021, we worked with data for the first 2 quarters, while we observed a gradually increasing number of filed petitions with a minimum based on the value of 96 and a maximum of 101. The average increased year-on-year to 98.5.

*Table 2 Total numbers of bankruptcy in Slovakia classified according to quarters (2017-2021)*

| Statistics | 2017  | 2018  | 2019   | 2020 | 2021 |
|------------|-------|-------|--------|------|------|
| Q1         | 105   | 140   | 93     | 75   | 96   |
| Q2         | 102   | 133   | 116    | 50   | 101  |
| Q3         | 101   | 125   | 113    | 68   | -    |
| Q4         | 75    | 76    | 91     | 110  | -    |
| Mean       | 95.75 | 118.5 | 103.25 | 76   | 98.5 |

*(Source: Own elaboration)*

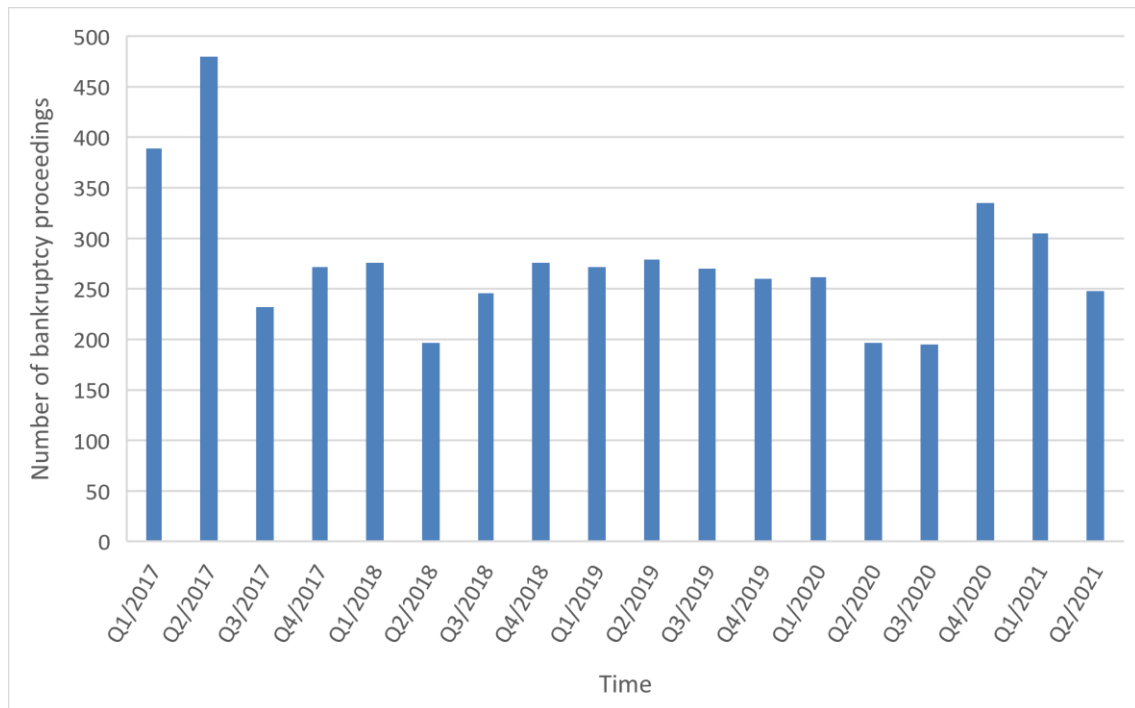
Table 2 shows an analysis of the development of the number of initiated bankruptcy proceedings in Slovakia in a quarterly distribution. The most significant year-on-year changes can be observed in 2018 when the number of initiated bankruptcy proceedings increased by 22.32% on average. The numbers in 2019 continued to grow compared to 2017, when the new legislation was adopted, but we observe a slight decrease of 12.8% compared to the historical year 2018. The decline continued in 2020, when the number of newly initiated bankruptcy proceedings decreased by 20.6% in comparison to 2017, but compared to 2018 it is up to 35.8%. Therefore, we assume that the indicator would continue its downward trend. We assume a coronavirus crisis to be the rebirth of the bankruptcy state, with its effects beginning to be fully manifested in the fourth quarter of 2020. They continued in the first two quarters of 2021, when the average for the first two quarters of that year alone was 29.6% higher than in 2020.

In second Figure , we see the trend of initiated bankruptcy proceedings in the Czech Republic.

We see a sharply declining trend in the second quarter of 2017 by up to 48%. We can say from the figure that the development of initiated personal bankruptcies had a steady trend with a slight decline in 2019 until the end of 2020, when the consequences of the Czech government's anti-pandemic measures began to manifest themselves in full. We can also state the difference compared to the Slovak data, such that we see that the amendment to the law in Slovakia had a positive effect on the increase and gradual decline of bankruptcies or decrease in the number of debtors in the country until a similar amendment to the law was adopted areas of initiated personal bankruptcies.



Figure 2 Initiated bankruptcy proceedings in the Czech Republic (2017-2021)



(Source: Own elaboration)

Personal bankruptcy and its legal regulation in the Czech Republic has existed since 2006, specifically in Act No. 182/2006 Coll. on Bankruptcy and Ways of Resolving It (Insolvency Act), hereinafter referred to as BWR. This law, like ours, has undergone various amendments, with the last amendment coming into force on June 1, 2019. As in the case of the Slovak Republic, these changes came from a large number of debts and executions from which people cannot get out. The amendment of the BWR in this direction did not bring the required values, but nevertheless there are differences of this legal regulation with the Slovak legal regulation which are important. According to the data in the figure, we note a declining trend since 2017 with a slight increase at the beginning of 2020, when systematic measures in connection with the COVID-19 pandemic were also fully valid in the Czech Republic.

Table 3 Descriptive statistics of the indicator of initiated bankruptcy in the Czech Republic (2017-2021)

| Statistics         | 2017   | 2018   | 2019   | 2020   | 2021  |
|--------------------|--------|--------|--------|--------|-------|
| Maximum            | 480    | 276    | 279    | 335    | 305   |
| Minimum            | 232    | 197    | 260    | 195    | 248   |
| Mean               | 343.25 | 248.75 | 270.25 | 247.25 | 276.5 |
| Median             | 330,5  | 261    | 271    | 229.5  | 276.5 |
| Standard deviation | 112.9  | 37.2   | 7.8    | 66.2   | 40.3  |

(Source: Own elaboration)

In Table 3 we can see 5 statistical indicators, which we calculated on the basis of the data of the indicator of initiated bankruptcy proceedings in the Czech Republic. The maximum value of the indicator in 2017 was 480, while the minimum was 232. The median in a given year was 330.5. The standard deviation was

112.9 and the average value of initiated bankruptcies was at the level of 343.25. In 2018, an average of 248.75 bankruptcies were filed in the Czech Republic, which year-on-year decreases the number of bankruptcies at a maximum of 276 in the first quarter and a minimum of 197 in the second quarter with a standard deviation of 37.2 and a median of 261. The number of bankruptcies for individual quarters increased to 209, but the minimum value of initiated bankruptcies for individual quarters rose by almost a third to 260. The median rose to 271. The standard deviation dropped significantly to 7.8. The average number of bankruptcies opened in 2019 stabilized at 270.25. With the advent of 2020, we observed a decrease in the number of new personal bankruptcies with a minimum value of 195, but with the onset of the fourth quarter, the numbers begin to return to values with a maximum value of 335. The average number of initiated bankruptcies fell year-on-year to 247 bankruptcies. For the year 2021, we worked with data for the first 2 quarters, while we observed an increasing number of filed bankruptcies with a minimum based on 246 and a maximum of 305. The average increased year-on-year to 276.5.

*Table 4 Total numbers of bankruptcy in Czech Republic classified according to quarters (2017-2021)*

| Statistics | 2017   | 2018   | 2019   | 2020   | 2021 |
|------------|--------|--------|--------|--------|------|
| Q1         | 389    | 140    | 93     | 75     | 96   |
| Q2         | 480    | 133    | 116    | 50     | 101  |
| Q3         | 232    | 125    | 113    | 68     | -    |
| Q4         | 272    | 76     | 91     | 110    | -    |
| Mean       | 343.25 | 248.75 | 270.25 | 247.25 | 98.5 |

*(Source: Own elaboration)*

In Table 4 we see an analysis of the development of the number of initiated bankruptcies in the Czech Republic in a quarterly distribution. The most significant year-on-year changes can be observed in 2018, when the number of initiated bankruptcies decreased by 27.5% year-on-year. On the contrary, the year 2019 recorded an increase of 8.64% compared to 2018. The decrease occurred in 2020 when the number of newly launched bankruptcies decreased by 8.5% compared to 2019 but compared to 2017 it is up to 27.96% and therefore we assume that the indicator would continue the declining trend but for the rebirth of bankruptcy began to be fully reflected in the fourth quarter of 2020 and continued in the first two quarters of 2021, when the average itself for only the first two quarters of the year was higher than in 2020 by up to 12%.

#### 4 DISCUSSION

People, whether as individuals or businesses, are willing to go into debt in an effort to maintain their position, invest in equipment upgrades or even out of irresponsibility. Economic growth, the favorable situation in the financial markets, increases in sales, all these and many other factors have greatly contributed to ignoring the risk associated with many financial liabilities. Such behavior leads to debtors being able to find themselves in an unfavorable financial situation. Whether it is advantageous loans, non-bank loans, there is always a borrower who does not estimate his financial situation and stands on the road from which it is difficult to return. Everyone, regardless of property, gender, age, has the right to a second chance, and therefore since 2006 there has been an institute of debt relief in the Slovak legal system. As debt relief was not perceived in the company as an easy way to get rid of debts, the Slovak government amended this law in 2017, which brought the desired "fruit". However, we are still lagging behind countries such as the Czech Republic, which is why it is necessary to mention a few suggestions

for possible solutions to the situation on how to streamline the process of debt relief for natural and legal persons.

Khan *et al.* (2020) compared the issue of bankruptcy between Slovakia and the Czech Republic, while their results indicate that Slovak entrepreneurs perceive bankruptcy as a natural part of business. Although bankruptcy is one possible way of resolving a bad situation, businesses are advised to strive to remain competitive and viable in the market. In order for a business to avoid bankruptcy, there are many models capable of predicting the risk of bankruptcy and assessing the health of the company from a financial and economic point of view (Bateni *et al.*, 2020; Hafiz *et al.*, 2018; Hu *et al.*, 2020; Kitowski *et al.*, 2022; Kovacova *et al.*, 2020; Shetty *et al.*, 2022; Voda *et al.*, 2021). It is also necessary to consider the main reasons for bankruptcy, including insufficient sales revenues (Pasternak-Malicka *et al.*, 2021), unqualified management and poor business-economic competencies, external bankruptcy causes (Mitter *et al.*, 2021), the size of the firms and the years of experience of its managers also have an impact on financial failure (Bozkurt & Kaya, 2022). In addition, Pálovics *et al.* (2021) found that shock and stress were associated with reporting bankruptcy in the future. Another factor may be the COVID-19 pandemic (Bozkurt & Kaya, 2022; Huynh *et al.*, 2021). All these factors should also be taken into account in the conditions of the Czech Republic and Slovakia. However, if a company finds itself in a situation where it cannot avoid bankruptcy, it should make adequate efforts to satisfy its creditors. (An *et al.*, 2020).

On the basis of the conducted research we were able to identify and compare the development of insolvency indicators representing bankruptcy in Slovakia and the Czech Republic. Both countries experienced a fluctuating decline. In 2020, when the COVID-19 pandemic was in full effect, a slight increase was observed. However, further growth can be expected. The highest number of bankruptcies occurred in 2018 for Slovakia and in 2017 for the Czech Republic. As expected, the Czech Republic, as a larger country, reported a higher absolute number of bankruptcies. This study revealed that bankruptcy is the issue that needs increased attention in the business environment of both countries, and further research is required. The results of this study can be further compared with other studies that have addressed the same issues in the Czech Republic and Slovakia (Civelek *et al.*, 2020; Durana *et al.*, 2021; Prusak, 2021). In general, interventions in the business environment in both countries are needed to help entrepreneurs in a bad situation.

As the indebtedness of society and the subsequent bankruptcies of natural or legal persons have a significant impact on the national economy, it is important that policy makers in a given country also approach this issue responsibly. For example, to focus in the future on the establishment of the institute "accredited expert for personal bankruptcy", whose task should be to relieve the centers of legal aid and streamline processes in bankruptcy. After the entry of participants to the world of bankruptcies except the legal aid center, research should follow focused on changes in the trend of personal bankruptcies, their success as well as on finding out the perception of personal bankruptcy in society. Similar recommendations are presented in the World Bank report, in which principles for effective insolvency regimes are provided (World Bank, 2016). Based on this document, transparency, accountability, and corporate governance play an important role in the issue. Also, Danovi *et al.* (2016) consider preventive arrangements to be a more efficient tool than alternative bankruptcy, both in terms of timeframe and satisfaction. In improving conditions and creating a legal environment, the efforts of legislators should not forget the bankruptcy stigma that needs to be understood in order to support entities in difficult situation (Tajti, 2018). In this way, the debate on insolvency should be open at the political and professional level, and knowledge of the real situation can help to design efficient frameworks, strategies and reforms (Gurrea-Martinez, 2021; Eidenmuller & van Zwieten, 2015). This study mapped the situation in Slovakia and the Czech Republic, which encourages further important steps. All the above-mentioned recommendations can contribute to improving the financial system in the Slovak Republic. An inspiration can be also found in other countries (Trubina, 2016).

## CONCLUSIONS

Personal bankruptcy, debt amnesty, foreclosures, loans, and non-bank companies are well-known concepts that shake the foundations of our company. Slovakia has become a leader in the indebtedness of the population within the region of Central Europe. Unfortunately, more people lose control of their obligations, which in addition to economic decline, also results in a moral and ethical impact on society as a whole. Debt relief helps people lend a lifeline and gives them a kind chance to start a new life with a clean slate. The study's main objective was to identify and compare the development of insolvency indicators representing the bankruptcy of entrepreneurs in Slovakia and the Czech Republic from the first quarter of 2017 to the second quarter of 2021. In both countries, we have seen a gradually declining trend since the beginning of the measurement period, but the COVID-19 pandemic disrupted this trend. For this reason, increased attention must be paid during the ongoing pandemic and in the post-pandemic period. In terms of the number of bankruptcies initiated in the countries, 2018 and 2017 were the least positive years for Slovakia and the Czech Republic, respectively. Overall, effective interventions are needed in both countries to help entrepreneurs in their bad situations. However, Slovak entrepreneurs are still at a disadvantage compared to Czech ones. While in Slovakia, the debtor has the opportunity to be represented only by the institution "center of legal aid", in the Czech Republic, there are many more of these possibilities, which increases the availability of this institute among the general public. This study appeals to immediate interventions in the business environment to help entrepreneurs deal with difficult situations and set the right conditions.

Possible limitations include the regional nature of the study, which focuses only on Slovakia and the Czech Republic. The information obtained from the available database was based solely on searches of public information in online sources available in the Czech and Slovak Republics. It was assumed that the data and information were accurate, correct, truthful, and not misleading. It is desirable to conduct in-depth research on the main factors of bankruptcy in both countries in the future. At the same time, future research should cover more countries than just Slovakia and the Czech Republic.

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