

FINANCIAL EDUCATION IN EASTERN EUROPEAN COUNTRIES

Nicoleta Gianina BOSTAN¹

Abstract: *In the context of economic disparities among the countries of the European Union, the paper analyses the status of financial literacy for people living in East European countries, the way to increase financial knowledge through financial education and finally leading to a higher and more effective financial inclusion. Economic gaps are a major challenge for Eastern European countries. Their recovery can be done through efficient public policies harmonized with actions to increase the degree of financial education of the population. Policy makers, public institutions and non-profit organisation involved in financial education matters can benefit from this analysis and conclusion just as much as researchers.*

Key words: *financial education, financial inclusion, financial literacy.*

1. Introduction

Forecasts on the impact of COVID 19 on the world economy are pessimistic. The latest revision of the International Monetary Fund shows a deeper recession that was initially estimated in 2020 and a slower recovery in 2021. Some industries have been completely blocked, others experienced significant decreases but there were also industries whose activity saw an increase in orders due to the pandemic. A high impact of the restrictions imposed by the epidemiological situation is found in the sector of automotive industry, airlines, travel agencies and tour operators, hotels and restaurants, entertainment activities, delivery, transport activities, constructions and medical care. The necessity to keep social distance pushed forward digital solutions for payments and banking. People have been taken out of their comfort zone when it comes to managing personal finance. The discrepancies between poor and rich countries have become more apparent during this pandemic situation. Lack of activity, limiting the possibilities to spend money and uncertainty increased saving behaviour. According to Eurostat, household saving rate in the euro area increased with 16.6% in the second quarter of 2020, compared with first but the investment rate went down with one percentage point. People's reaction to income fluctuation is correlated with their level of financial literacy and wealth inequality. The model built by Debortoli and Gali, 2017 shows a different behaviour when a person's income increases. People who have income based on wages tend to

¹ *Transilvania* University of Braşov, nicoleta.motoasca@unitbv.ro

increase their consumption when their income increases while people who earn income from investments tend to reinvest the gain. Even if people manage to save, they don't know what to do with the money, how to invest it in order to obtain additional sources of income. People with lower level of financial literacy find difficulties when confronting with indebtedness or decisions to their indebtedness comes in with high-cost borrowing, as Lusardi and Tufano, 2009, show. Financial education during these changes is the key to rapid adaptation and identification of opportunities for individuals.

In 2008, the OECD governments created International Network on Financial Education, with 125 countries members and set up strategic areas of action in the field of financial education. The OECD governments acknowledged that each country should have a national strategy to increase the level of financial literacy of the people.

According to Kaiser, Lusardi et al, 2020, the effect of financial education leads to changes in financial behaviour comparable to those on health interventions or those that aimed at fostering energy conserving behaviour. Financial education programs have a positive effect, similar to the effect of educational programs in other domains. The main concern was if the costs of financial education programs are justified by the results. Fernandes et al., 2014, argued that even the effects of financial education are positive, the magnitude is small and the cost might not be justified. According to Kaiser, Lusardi et al, 2020, many of the financial education programs studied are cost-effective. If financial education is practiced during school, the effects on the quality of financial life are long-term, across the lifespan of individuals.

The present paper presents an analysis of the efforts made to increase financial education, focused on Eastern European countries group, EU members (EEU): Bulgaria-BG, Czech Republic-CZ, Hungary-HU, Poland-PL, Romania-RO and Slovakia-SK.

2. Financial Inclusion using Financial Literacy

People in poverty are confronted with lack of access to financial services, such as transfer payments, savings, loans and insurance. Financial inclusion gives access to financial services, at a fair cost, it helps people fighting with poverty. The use of income, without basic financial knowledge, only in cash, on a black, unregulated market, without transparency puts poor people at risk of fraud and unreasonable costs. Financial inclusion must come with awareness of the rights and obligations in relation with the banks. Strong consumer protection and bank supervisory authority are also needed.

According to Gathergood, 2012, non-payment of consumer credit and over indebtedness are related with lack of self-control and financial illiteracy. Under saving and over indebtedness, as a result of over consumption, together with poor financial knowledge have an effect on the accumulation of wealth, Ameriks et al, 2007.

Financial Literacy Score (FLS), is the result of measuring basic financial knowledge on risk diversification, inflation, numeracy, and interest compounding, Standard and Poor's Survey, 2014. Governments should take into account that people's financial response to monetary policy is different in countries with a low level of financial literacy compared to other countries.

Financial education matters in the process of taken financial life decision (see figure 1).

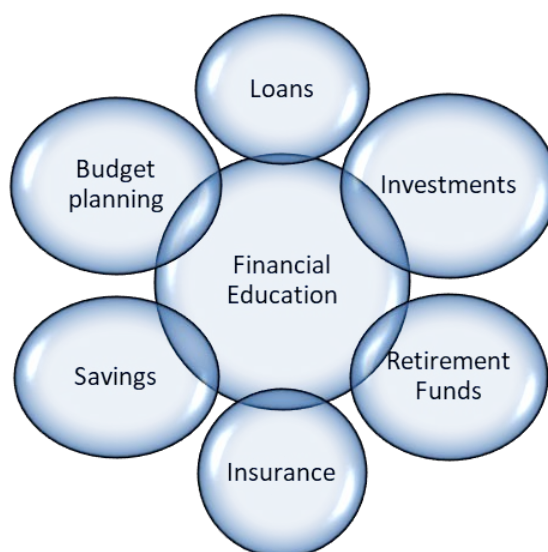


Fig.1. *Financial Education, main impact on people's financial life*

A low level of financial literacy is associated with: mistakes in borrowing (Lusardi and Tufano, 2009), euro or other foreign currency debt or saving in foreign cash currency (Beckmann and Stix, 2013), stock market involving, retirement planning (van Rooij et al., 2011) and insurance awareness (Dalkilic and Kirkbesoglu, 2015).

The results of FLS can be analysed comparing with data from median hourly earnings (in Euro, Eurostat), school enrolment (ratio to the population that completed secondary level of education) and financial inclusion measured by people over 15 years age who have opened an account, Global Findex, Demirgüç-Kunt et al., 2017, World Bank.

Table 1

Financial literacy, wage earnings, level of education, financial inclusion and NPL-East European countries

Country	Financial Literacy Score	Median hourly earnings	School enrollment, tertiary (%gross)	Account (% age 15+)	Non Performing Loans
BG	35	2.4	71	72%	6.6
CZ	58	6.17	64	81%	2.7
HU	54	4.66	49	75%	1.5
PL	42	4.98	68	87%	3.8
RO	22	3.74	49	58%	4.1
SK	48	5.64	47	84%	2.9

The S&P Global FinLit Survey measures financial literacy interviewing more than 150.000 people, over the age of 15, in 143 countries. A person is considered financially literate if he/she can answer 3 out of 4 questions. Worldwide the percentage of people who gave the correct answer to 3 out of 4 questions is 33, the EU average is 52 and for

EEU countries average of FLS is 43. The lowest rate in the European Union is recorded in Romania, as only 22 per cent of people are financially literate, according to the definition of FLS.

A territorial hierarchy analysis (table 2) of the countries included by the rank method from the perspective of variables analysed shows a final rank.

Table 2

Rank method, East European Countries

Country	FLS Rank	Median hourly earnings Rank	School enrollment tertiary Rank	Account Rank	NPL rank	Score	Final Rank
CZ	1	1	3	3	2	10	1
PL	4	3	2	1	4	14	2
HU	2	4	4	4	1	15	3
SK	3	2	6	2	3	16	4
BG	5	6	1	5	6	23	5
RO	6	5	5	6	5	27	6

3. Access to Financial Services

Data provided by Global Findex Database (2017) show that 69 per cent of world adults have an account. From the EEU countries only Romania has a lower percentage. The main reasons for adults not opening an account are insufficient funds, lack of trust in banks and costs (table 3).

Table 3

Main reasons for not having an account in East European Countries

Country	Account (% age 15+)	No account because financial services are too expensive (% age 15+)	No account because of lack of trust in financial institutions (% age 15+)	No account because of lack of necessary documentation (% age 15+)	No account because of insufficient funds (% age 15+)	No account because someone in the family has an account (% age 15+)	No account because of no need for financial services ONLY (% age 15+)
BG	72%	12%	9%	3%	20%	8%	2%
CZ	81%	8%	5%	2%	8%	8%	2%
HU	75%	16%	13%	1%	13%	9%	1%
PL	87%	4%	3%	4%	7%	7%	1%
RO	58%	11%	11%	1%	25%	11%	3%
SK	84%	8%	4%	2%	10%	9%	1%

Cash payments can be unsafe and hard to be managed. Electronic payments help to reduce these risks. Transfer payments increase transparency, improve efficiency and

reduce corruption and additional costs. Digital payments help to keep social distance without reducing consumption, transferring money from families and friends in difficult times, paying utility bills. Banks need to provide the necessary infrastructure to assure the access of people to financial services, although this may come with operational costs. Lack of trust in banks makes it difficult to have a real engagement from clients in financial education programs. Some clients perceive that it is an ethical issue to receive financial education lessons from banks, the service provider itself, whose main interest is to sell. Large documentation used by banks when they contract a financial service with a client, difficult to understand and read, rise up the distrust. The banks swing between their effort to consolidate relationships with the clients and their effort to comply with regulations.

Table 4

The way that utility bills and wages are paid (Global Findex) and access to internet from a mobile phone (Eurostat)

Country	Paid utility bills in the past year	Paid utility bills: using cash only (% paying utility bills)	Used the internet to pay bills or to buy something online in the past year	Received wages: into an account	Received wages: in cash only (% wage recipients)	Received government payments: in cash only	Individuals used a mobile phone (or smart phone) to access the internet
BG	78%	84%	26%	44%	15%	15%	63
CZ	75%	20%	66%	50%	6%	8%	71
HU	75%	64%	38%	42%	13%	14%	69
PL	68%	22%	65%	52%	4%	2%	58
RO	79%	87%	19%	27%	32%	26%	68
SK	69%	26%	57%	53%	3%	11%	67

In RO and BG it can be observed (table 4) that even though people have access to internet on a mobile phone, they still prefer to use cash only for paying the utility bills. In RO we can see that adults receiving wages in cash only are more than double that in BG.

In countries like CZ, PL and SK it can be seen that a small percent of people are receiving wages and governments payments in cash only. In Poland only 2% of the government payments are made in cash only and in Slovakia just 3 % of employed peoples are receiving wages in cash. In these countries more than 80% of adults own an account.

The number of people who are using cash for utility bills are 84% in BG and 87% in RO, even though the number of adults that have an account is significant bigger 72% in BG, respectively 58% in RO. People are not using their account for day to day payments, preferring cash instead. However, a large proportion of individuals have access to mobile phone internet resources. With them, they could control the turnover of the account and make remote payments without having to manipulate cash.

We can see that in order to have progress it matters how governments choose to make payments, using electronic transfers for governments payment is more transparent, cheaper and more efficient. In some economies, governments involvement is a tool to stand up for digital payments.

Table 5

Financial Access Survey. East European Countries, IMF – 2019

Country	ATM, per 100.000 adults	No of commercial banks branches, per 100.000 adults	Outstanding deposits with commercial banks (%of GDP)	Outstanding loans from commercial banks (%of GDP)	GDP, per capita
BG	94.33	57.89	69.24	50.22	24,561
CZ	58	20.57	68.51	50.94	42,576
HU	60.95	23.42	40.24	31.68	33,979
PL	70.55	28.95	48.25	46.97	34,218
RO	64.44	23.68	31.6	24.22	32,297
SK	61.84	24.81	51.3	58.19	34,178

Comparing data from FAS (table 5) with data from financial inclusion we can see that BG has the biggest number of ATMs and bank branches per 100.000 adults but outstanding deposits and loans are similar with CZ, even though the number of ATMs and the number of bank branches are significantly lower. The same can be observed between RO and SK. Romania is far behind the other East European countries from the point of view of financial inclusion as only 58% of the adults have an account, 31.6% deposits and 24.22% loans from a commercial bank. One of the main reasons in RO for not opening an account is insufficient funds (25%) but GDP per capita is bigger than BG's and closes with numbers in HU, SK and PL.

4. National Strategies for Financial Education

Financial behaviour of individuals has become a long-term priority for governments, members of the Organisation for Economic Co-operation and Development, as part of the national strategies.

In 2014, Bulgarian Prime Minister Plamen Oresharski said his country has started working on a National Strategy for Improving Financial Literacy.

In 2019, a working group at the Bulgarian Ministry of Finance started to work for a project in the research area, measuring the level of financial literacy, establish activities, priorities and target groups.

Czech Republic has a national financial literacy survey since 2007, the Ministry of Education introduced financial education in the school curriculum, first in 2009 in secondary school and starting 2013 in primary school, as part of Social Studies and 215 Citizenship Education. A dedicated committee meets for consultation, once a year. Also,

non-profit and private institutions are involved (OECD/INFE policy handbook, 2015).

Hungary used the toolkit provided by OECD/INFE expert in 2010 for a national survey. Magyar Nemzeti Bank-The Central Bank of Hungary, in cooperation with the Ministry of Human Capacities and the Ministry of National Economy has organised financial education conferences and round tables with teachers. Since 2007 financial education has been a subject in schools but not a compulsory one, leaflets are distributed to pupils each year.

In Poland, a national strategy for financial education was designed in 2015. PISA Financial literacy surveys from 2012 and 2015 took place in Poland. The National Bank of Poland developed a series of activities to sustain financial inclusion and responsible financial decision. My Finance is a large program of financial education for youth, implemented in schools by the Junior Achievement Foundation.

In Romania, in 2018 a collaboration agreement between some public institutions is signed for carrying out joint activities in the field of financial education and elaboration of the National Strategy for Financial Education. In 2020, BNR, ASF, the Ministry of Education, Finance and the Romanian Association of Banks signed a protocol establishing the Committee for financial education.

In Slovakia, the Academy for Financial Education was founded in 2010, supported by Národná Banka Slovenska to provide for general public basic financial knowledge. Subjects of financial education were included in the school curriculum with the support of the Slovak Ministry of Finance.

The country with the largest strategy and outlined project to increase the level of financial education of the population is the Czech Republic. The results are visible: CZ has the biggest FLS, highest GDP per capita and good figures on financial inclusion, with low level of non-performing loans.

4. Conclusions

The approaches in each country for the development of a strategy for financial education, at national level, are different. Despite the fact that the usefulness of a national strategy has been recognized by governments, the actions to develop such a strategy are in their infancy in some countries. In other countries, governments have only been involved at the declarative level.

However, the subject of financial education has become a topic of public debate and more and more private institutions and non-profit organizations have joined efforts and initiatives worldwide.

A public, national platform in which one would find all the ongoing projects and events would be useful in every country. It is recommended that the national strategy for financial education be outlined by the governments of the countries with objectives and a well-established, transparent calendar so as to allow the evaluation of results and an efficient correlation with the effort made.

In the current context, as most educational events take place online, the platform could collect information on ongoing actions but also direct people interested in financial education to register for the event. The platform would be useful, both for the

organizers and the beneficiaries, regardless on the category to which it is addressed (teachers, students, adults, general public).

Increasing the use of digital government payment, both to send and to receive funds, to and from the state budget, would increase the degree of financial inclusion and basic knowledge about the electronic payment method.

Financial education would help to be introduced in the curriculum in all countries, with a separate curriculum or as an interdisciplinary approach.

References

- Beckmann, E. and Stix, H., 2013. *Foreign currency loans and knowledge of exchange rate risk*. Vienna, Austria: Oesterreichische Nationalbank.
- Dalkilic, N. and Kirkbesoglu Erdem, 2015. The Role of Financial Literacy on the Development of Insurance Awareness
- Debortoli, D. and Jordi Gali, 2017. *Monetary policy with heterogeneous agents: Insights from TANK models*. Manuscript, September
- Demirgüç-Kunt, A., Klapper, L., Singer, D., Ansar, S. and Hess, J., 2018. *The Global Findex Database 2017: Measuring Financial Inclusion and the Fintech Revolution*. Washington, DC: World Bank.
- Gathergood, J., 2012. Self-control, financial literacy and consumer over-indebtedness. *Journal of Economic Psychology*, vol. 33, issue 2, pp. 590-602.
- Kaiser, T. et al., 2020. *Financial education affects financial knowledge and downstream behaviours*. Global Financial Literacy Excellence Center, working paper.
- Klapper, L., Lusardi, A., and van Oudheusden, P., 2016. *Financial Literacy Around the World*. Insight from The S&P Global Finlit Survey.
- Lusardi, A., and P. Tufano. 2009. *Debt literacy, financial experiences, and overindebtedness*. NBER Working Paper No. 14808. National Bureau of Economic Research, Cambridge, MA.
- Van Rooij, M., Lusardi, A. and Alessie, R. 2011. *Financial Literacy, Retirement Planning, and Household Wealth*
- <https://www.oecd.org/daf/fin/financial-education/National-Strategies-Financial-Education-Policy-Handbook.pdf>