

FINANCIAL LITERACY IN ALBANIA:

SURVEY RESULTS ON MEASURING THE FINANCIAL LITERACY OF THE POPULATION, 2015

Egnis Isaku, Kliti Ceca, Arlinda Koleniço

Research Department, Bank of Albania

Section I – Measuring financial literacy: methodology

- The questionnaire compiled by the Bank of Albania, selecting and adapting the core questions of the OECD/INFE to measure financial literacy.
- Questions covering: financial knowledge, behaviour, attitude and inclusion.
- 1000 individuals, who meet the age criteria (age 18-79). Data weighted using gender, age-group and region (urban/rural).
- The survey was fielded by the Institute of Statistics (INSTAT), through face-to-face interviews, in July-August 2015.
- The interviews took place in families, according a random selection method.
- The sample distribution within Albania's territory was in line with the principle of proportionality.

Financial literacy according **OECD/INFE** (2015):

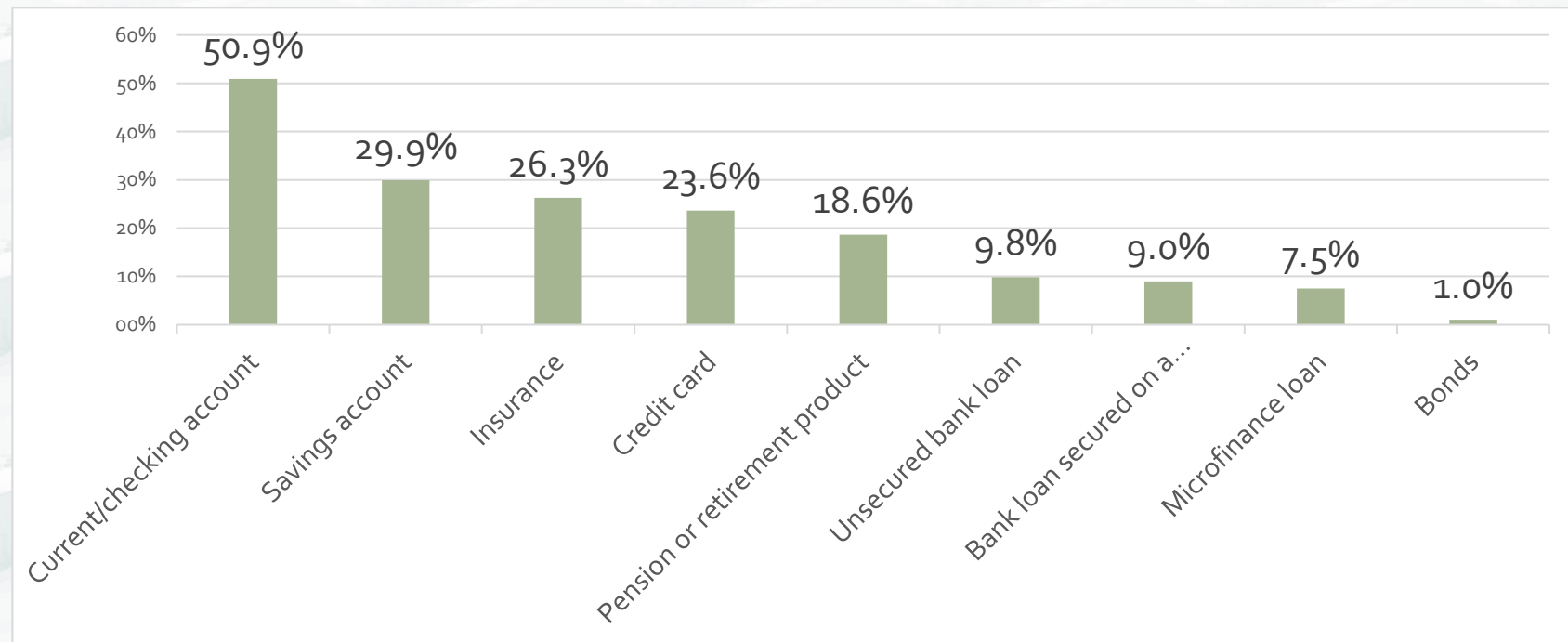
"A combination of awareness, knowledge, skill, attitude and behaviour, necessary to make sound financial decisions and ultimately achieve individual financial well-being."

Section II – Financial inclusion

The process of promoting affordable, timely and adequate access to a range of regulated financial products and services and broadening their use by all segments of society through the implementation of tailored existing and innovative approaches including financial awareness and education with a view to promote financial wellbeing as well as economic and social inclusion.

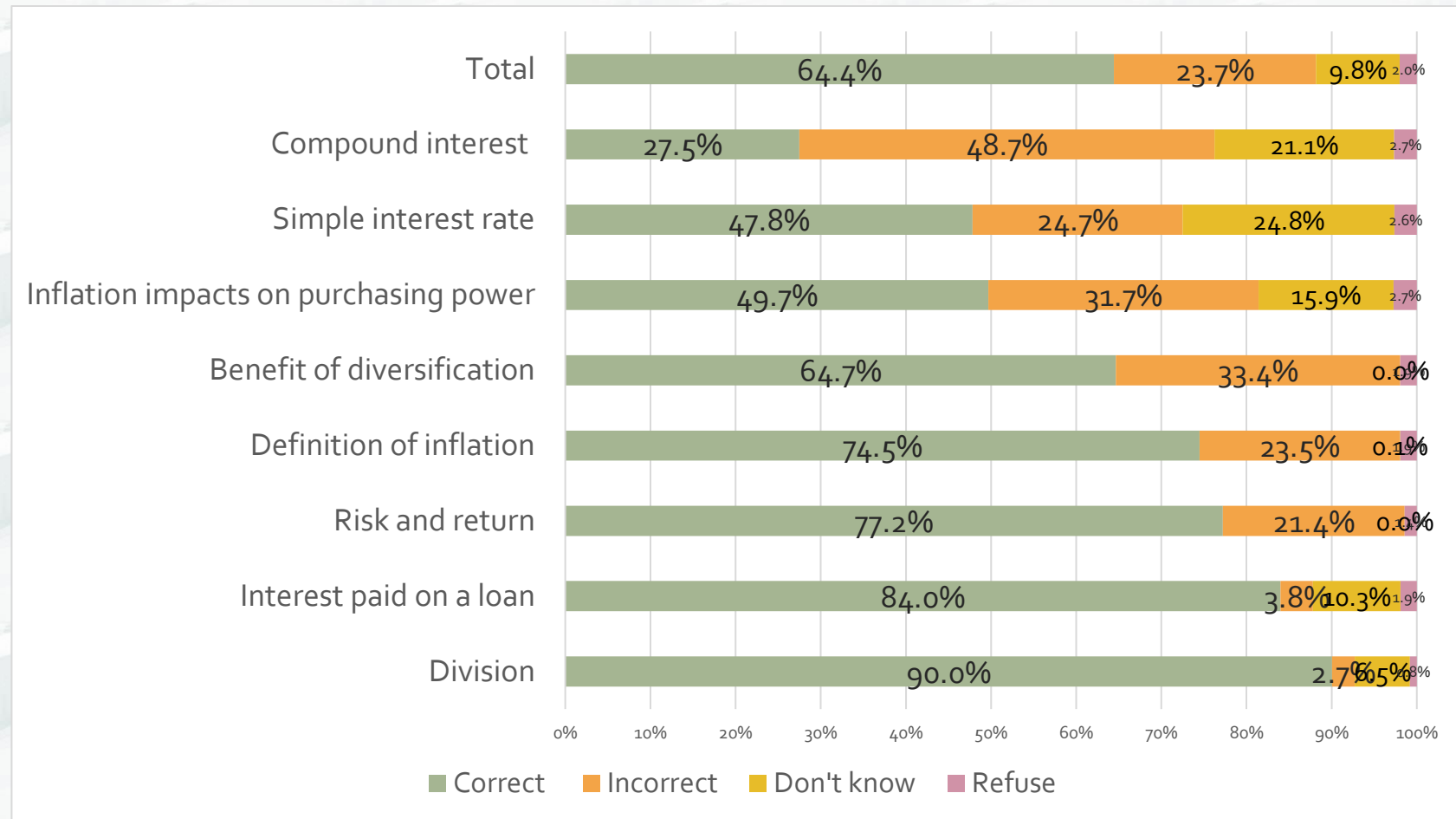
Having a bank account is commonly used as a basic indicator to measure the financial inclusion of a person, because through access to the account it becomes possible the use of many other banking and financial products and services as well.

From those that you have heard of, what financial products do you currently hold?



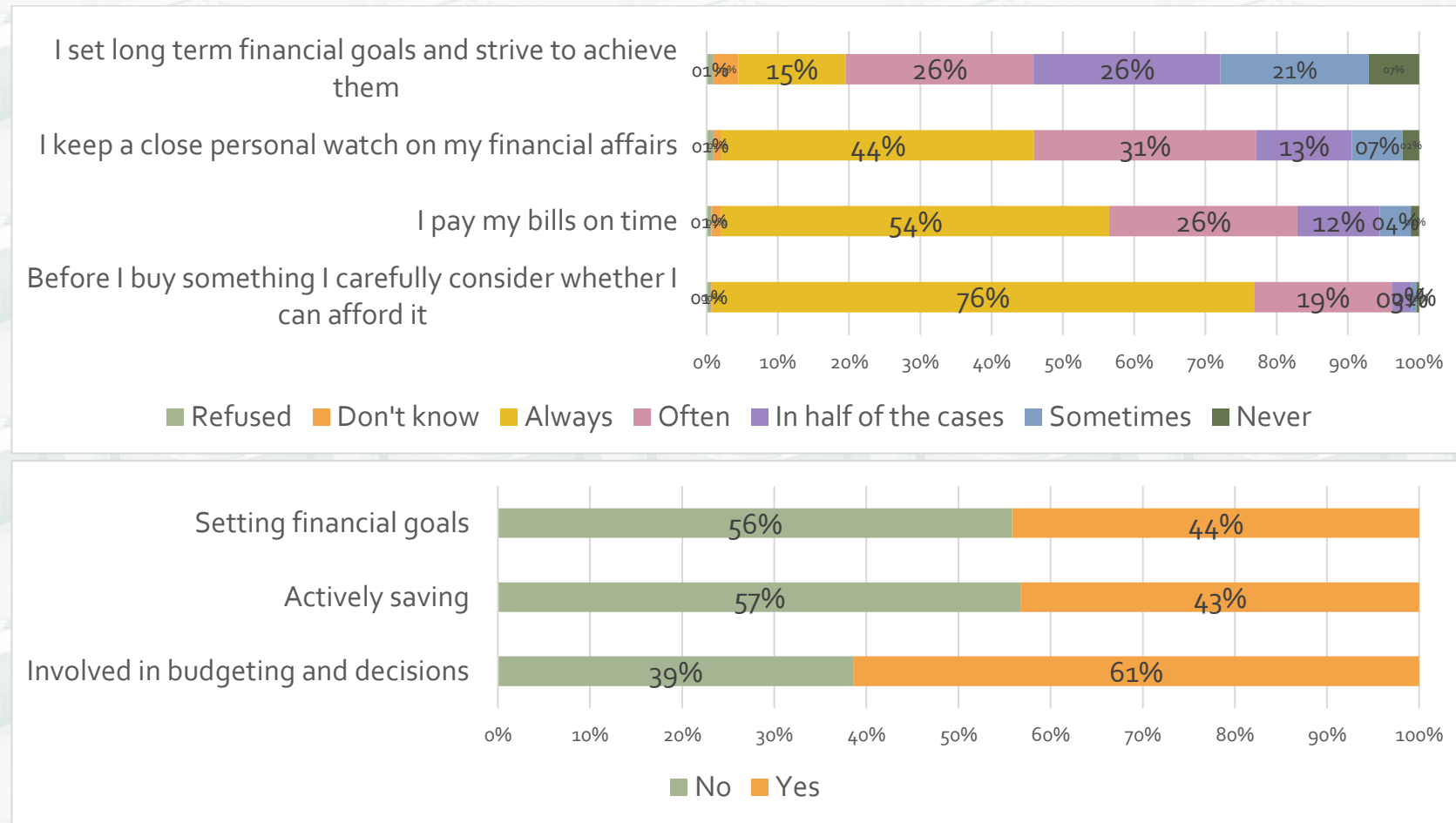
Section III – Financial knowledge

A financially literate person should have some basic knowledge of key financial concepts and the ability to apply numeracy skills in financial situations. The questionnaire therefore includes 8 questions in relation to concepts such as: simple and compound interest, time-value of money, risk and return, interest paid on a loan, inflation, diversification and division.



Section IV – Financial behaviour

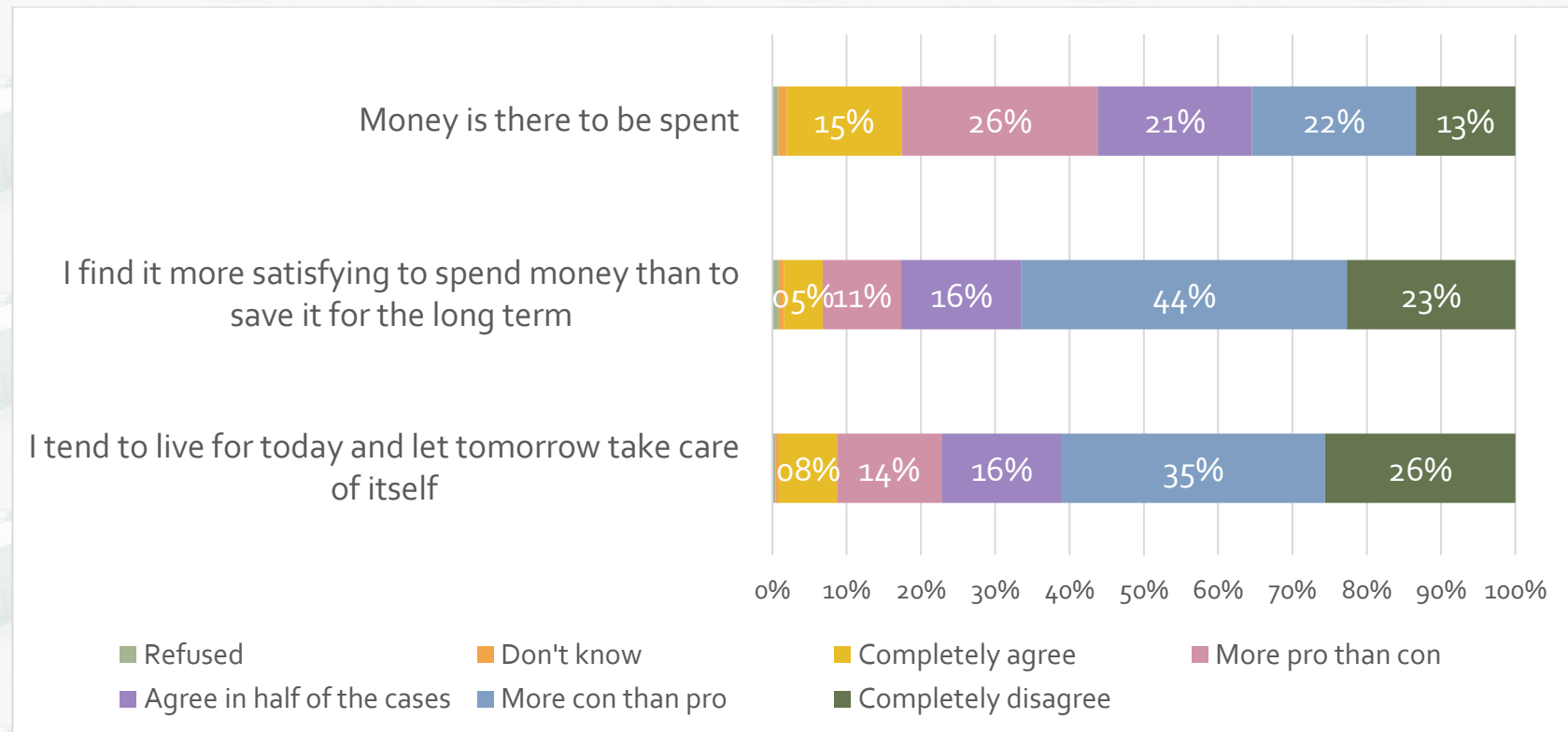
Behaviour is an essential element of financial literacy; and arguably the most important. The positive outcomes from being financially literate are driven by behaviour such as planning expenditure and building up a financial safety net; conversely, certain behaviours, such as over-using credit, can reduce financial wellbeing. This element of financial literacy has been measured through different questions, grouped in 8 main issues.



Section V – Financial attitudes

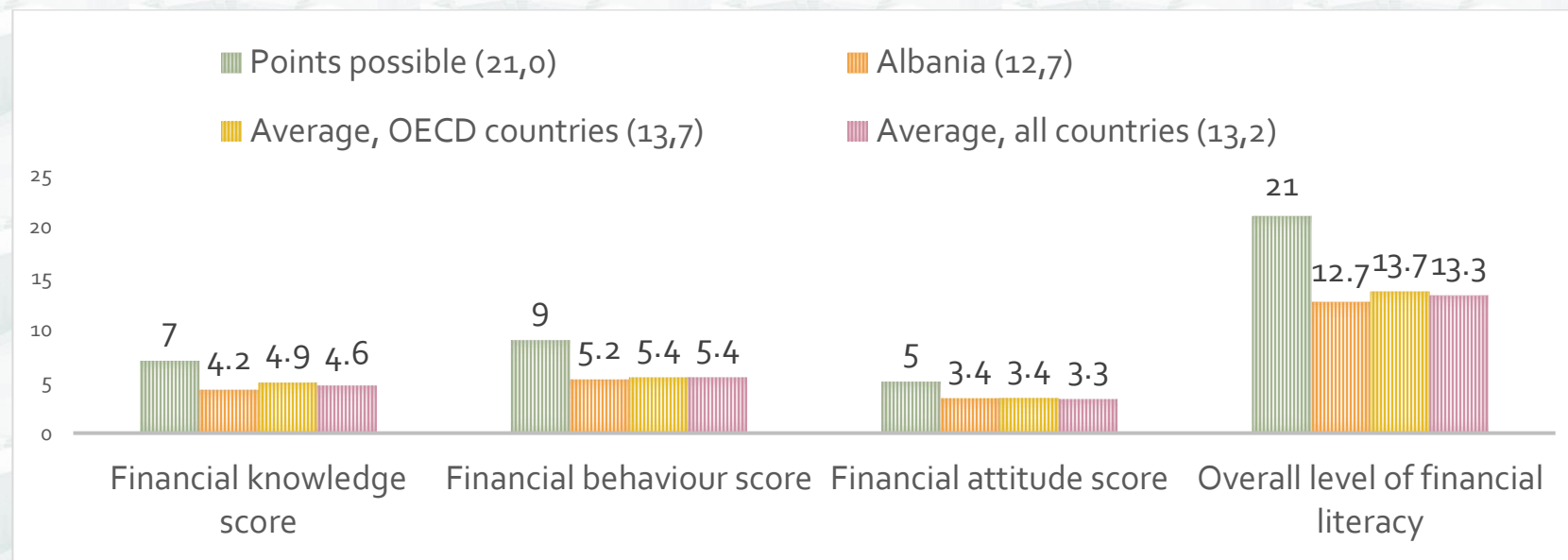
Beyond knowledge, skills, behaviour and awareness, attitudes and preferences are considered to be an important element of financial literacy. If someone has a rather negative attitude towards saving for their future, for example, it is argued that they will be less inclined to undertake such behaviour. Similarly, if one prefers to prioritise short term wants over longer term security then he is unlikely to provide himself with emergency savings. This may face him with unexpected, costly situations in the future. The analysis of the respondent's attitudes toward financial issues highlights his tendency towards money, and particularly towards planning for the future.

Attitudes towards saving for the future, setting long term goals, and financial risk taking



Financial literacy scores

The average score for Albania is 12.7 out of a possible 21 (a combination of a maximum of 7 for knowledge, 9 for behaviour and 5 for attitudes).



Key findings and conclusions

Financial knowledge:

- Almost half of respondents (2011: 37.6%) can calculate simple interest and more than a quarter (2011: 14.3%) understand the impact of compound interest;
- Half of the respondents know the time value of money (2011: 61 %) and 77.2% know the financial risk concept (the risk-profit relationship in an investment) (2011: 76.9%);
- About 74.5% of the respondents answered correctly to the question about inflation (2011: 80%), and 64.7% of them know the importance of diversification (2011: 61%).

Financial behaviour:

- 95% of respondents consider whether they can afford buying something (2011: 87%);
- 81% pay their bills on time (2011: 78%);
- 75% keep a close watch on their financial affairs (2011: 71%);
- Albanians tend to set long-term financial goals: 41% state that they display such financial behaviour (2011: 32%);
- 71% of households have a budget (2011: 78%);
- 47% have been actively saving money in the past 12 month (2011: 48%);
- Only 44% of respondents have long-term financial objectives and the most important objectives vary from education, to cover wedding or travel expenses;
- 31% of the persons holding a financial product in the last 2 years, have made at least one attempt to search for information on other products (2011: 46%).

Financial attitudes:

- 61% are against the sentence "I tend to live for today and let tomorrow take care of itself" (2011: 66%);
- 35% are against the sentence "Money is there to be spent" (2011: 44%), while 41% of respondents agree with the sentence (2011: 24%);
- 67% don't find it more satisfying to spend money than to save it for the long term (2011: 61%), 16% agree with the sentence (2011: 18%).

Conclusions:

The survey results show that Albania has a total financial literacy score of 12.7 out of 21 - 1 point below the OECD average, and 0.6 points below the average of all participating countries. These differences come mainly from the knowledge score gap, while Albania's level of attitudes score the same as the OECD countries and the behaviour score stands slightly below the OECD average and the average of all countries. The low levels of financial literacy highlights the importance of financial education, to improve knowledge, skills and behaviours of adults.