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FINANCIAL LITERACY – A FRAMEWORK FOR POLICYMAKERS

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Abstract
Insufficient financial education initiatives, economic shortcomings, and limited expansion of the Romanian financial system create an endless loop of challenges: the Romanian economy does not benefit from the characteristics of an advanced financial system, and the financial system does not take full advantage of the growth and opportunities offered by the Romanian economy. Despite increasing income convergence, Romania has a shallow level of financial education. The research shows the main determinants of low financial literacy and the individual socio-economic characteristics that influence low levels of financial literacy. The results provide a solid framework for policy-making and private initiatives to increase financial literacy and well-being.

Keywords
financial education; financial literacy; financial inclusion.

Introduction

The significance of being financially educated is widely acknowledged in society, impacting both personal wealth and the broader economic landscape. Nevertheless, there is a notable disparity in financial literacy levels between Romania and the wider European Union. As per the research executed by S&P FinLit Ratings (Klapper et al., 2015), only 22% of Romanians demonstrate financial literacy, compared to the EU average of 52%. This gap is a cause for concern, as emphasized by Hastings et al. (2013), who noted that an insufficient grasp of financial concepts could prevent individuals from maximizing their personal financial resources (Hastings et al., 2013).

As per the analysis conducted by the Romanian Banks Association, a mere 20% of the populace actively seeks information regarding banking institutions and their offerings. Consequently, it can be inferred that the majority might sporadically engage with resources or programs centered on these subjects. Generally, there is limited familiarity with banking products among the population, with only basic products like debit cards and bank credits being somewhat known and recognized by roughly 4 in 10 Romanians.

In contrast, an Aegon Romania study indicates that, in the short run, Romanians are quite vigilant about budget management. The data illustrates that a large segment, particularly contemporary families (constituted by parents between the ages of 30-44 with a medium to high-income bracket and substantial education), have a clear understanding of their income streams (79%) and consistently adhere to timely bill payments (90%). However, financial security does not seem prominent in their priority list.

Furthermore, a separate investigation was undertaken to gauge the extent of financial literacy among the Romanian youth. This initiative aims to pinpoint the primary banking products known and utilized by the young adult demographic. Young individuals need to attain new financial skills and competencies (Ziakou, 2020). The study seeks to ascertain the entities that should spearhead financial literacy campaigns for the youth and the areas that necessitate a comprehensive strategy from these institutions. This investigation intends to uncover pivotal information that could enhance the financial literacy levels among the Romanian youth.

Literature review

Financial literacy can be defined as the ability to understand and effectively use various financial skills, including personal financial management, budgeting, and investing (Lusardi & Mitchell, 2014; Fernandes et al., 2014).

As financial tools such as bank deposits, mortgages, bank loans, shares, bonds, and futures become progressively prominent, individuals find themselves shouldering more responsibility in navigating their personal financial planning, investment, and expenditure throughout their lifespan, albeit with inadequate information. In light of this, financial education emerges as a critical process wherein individuals utilize a blend of abilities, resources, and contextual understanding to interpret information and arrive at sound financial decisions, as outlined by Mason and Wilson (2000).

The concept of financial literacy has been delineated by Vitt et al. (2000) as the capacity to scrutinize, oversee, and articulate matters concerning one's financial state that affect material prosperity. This encompasses the discernment of financial options, the ease of discussing monetary and financial subjects without unease or despite it, planning for future prospects, and adeptly reacting to life circumstances that influence daily financial choices, including phenomena in the broader economy. Contrasting this, another perspective defines financial literacy as a conglomerate of awareness, expertise, skillset, disposition, and conduct requisite for making prudent financial choices that culminate in individual financial prosperity, as Atkinson and Messy (2012) highlighted.

The definition adopted by the OECD (Organisation for Economic Co-operation and Development) serves as a comprehensive framework encompassing various aspects central to financial education. Nonetheless, it may present an element of vagueness due to the extensive scope of the financial notions, hazards, and efficacy in decisionmaking it incorporates. Without explicit clarification, these broad elements can potentially hinder the precise assessment of literacy levels.

Regarded globally as a pioneer in advancing financial education, the OECD has formulated numerous policy instruments and methodologies, alongside research and directives, to bolster the creation of nation-specific strategies and approaches towards global financial education. Moreover, the OECD/INFE has conceived a collection of instruments to evaluate adult financial education and inclusion levels (OECD/INFE, 2020).

Literacy in this context denotes the degree to which individuals grasp financial circumstances and instruments and the efficacy with which they utilize them for personal benefit. However, as per the OECD's 2020 report on Adult Financial Literacy in South East Europe, the literacy rate in this region is relatively lower, averaging around 57% of the utmost attainable literacy level, compared to higher percentages observed in developed EU economies. The report also highlights a notable shortfall in Romania's financial literacy compared to other nations involved in the study, including Croatia, Georgia, Bulgaria, and Macedonia (OECD/INFE, 2020).

A study by the Institute for World Economy, Romanian Academy, in 2022 revealed a concerning scenario in Romania, where merely 8% of the populace demonstrates basic financial comprehension, leaving a staggering 92% financially uninformed, with a minor 6% exhibiting advanced financial acumen. The study further suggests a strong correlation between financial literacy levels and factors such as education, income, and age, indicating an alarming deficiency in the understanding of fundamental financial principles among the majority of the Romanian population.

Addressing this deficit is imperative for facilitating borrowing and fostering growth. As a move towards enhancing financial literacy, various stakeholders in the Romanian financial sector have united to launch a collaborative venture, the Financial Education Platform, involving 21 public-private organizations. Furthermore, the Romanian Association of Banks (ARB) is committed to augmenting citizens' financial literacy, aligning with objectives delineated in the National Strategy for Sustainable Development 2030 approved by the government. This strategy encompasses overseeing and endorsing a European scheme geared towards ameliorating financial education levels (European Banking Federation Report on Financial Literacy in Europe, 2020).

Other studies revealed that financial education initiatives commenced gradually in Romania in 2017, facing hurdles due to several structural shortcomings. While the progress has been modest, noteworthy achievements have been made. Nonetheless, it is necessary to refine policy implementation to be more nuanced, adaptable, and cater to diverse socio-economic sectors (Nițoi et al., 2022). Moreover, other researchers stated that limited financial inclusion in Romania is closely associated with insufficient financial education (Clichici & Moagăr-Poladian, 2022).

To accentuate the criticality of bolstering financial education, especially among the youth, the National Bank of Romania orchestrated the Financial Education Week from April 3-6, 2023, targeting over 500 student groups across various educational institutions nationwide.

Additionally, several national and private entities in Romania are stepping forward to contribute to this cause actively. Initiatives like the BCR Money School and the ABC Program spearheaded by Raiffeisen Bank are aimed at enhancing the financial literacy of the populace, especially in preparing the younger generation for financial independence. In a dynamic economic landscape characterized by increasing complexity and varied financial challenges, fostering such initiatives is imperative to adapt and thrive.

Methodology

The study was conducted through an online questionnaire aimed at the Romanian demographic aged between 16 and 41, encompassing both urban and rural sectors, to assess their financial education level. This survey seeks to gauge diverse aspects of financial wellness, ranging from understanding various financial notions to utilizing them for budgetary planning. Furthermore, it intends to foster a heightened interest in financial information among the youth.

The survey methodology was crafted to gather insights into the young population's familiarity with different economic terms, banking products, the financial tools they employ, and the scope of financial education in academic settings. The questions were designed to align with the prevailing circumstances and corroborate with existing European-level research to secure the most definitive responses.

Participants who consented to participate in the survey were presented with 15 questions evaluating their financial literacy levels. Of these, 14 were closed-ended, presenting three or more potential answers, where respondents could select one or more options. One query utilized a scale ranging from 1 to 10 to gauge the level of information, with 1 symbolizing a lack of information and 10 indicating a well-informed stance.

The target sample encompassed 300 respondents hailing from varied regions across the country, including students, workers aged 16 and above, and those up to 41 years old, with the majority falling within the 20-24 age bracket. A significant portion, over 50%, held tertiary education qualifications, and 80% resided in urban localities. Participants were briefed about the research objectives, and guidance on how to fill out the questionnaire was provided. The data accumulated from the 14th to the 24th of June, 2023. Invitations to partake in the survey were disseminated through online flyers bearing a link to the questionnaire, primarily circulated via WhatsApp and created utilizing Google Forms. This circulation process served as the principal method for data gathering.

The following hypotheses were formulated according to the aim of this research:
Hypothesis 1: Young people feel slightly confident or uncertain in managing their finances.
Hypothesis 2: People coming from rural areas possess a more limited understanding of financial matters.
Hypothesis 3: Individuals possess a fundamental understanding of banking terminology.

Hypothesis 4: Most respondents have not participated in a financial education course yet exhibit interest in doing so.

Results and discussion

The responses from the participants serve as the foundational data to evaluate the financial literacy levels among the youth in Romania. A total of 251 individuals, with a median age of 24, participated in the survey; this included 129 females and 117 males. Predominantly, these participants held university degrees or advanced educational qualifications. The acquired data facilitates a detailed examination of the financial knowledge possessed by the respondents, offering insights into the prevalent state of financial education among the Romanian youth.

Table 1. Sample size according to socio-demographic criteria (Source: Authors' research results)

Age		Educational Level		Location	
16-20	50	Secondary Education	98	Urban	203
20-24	94				
25-30	65	Undergraduate	136	Rural	48
30-35	33				
36-41	9	Postgraduate	17		

Based on the preliminary data gathered, it is apparent that a significant portion of the respondents exercise autonomy over their financial management, primarily stemming from their earnings. About 49% of the respondents derive their income from their salaries, with 53% having control over their financial decisions, indicating a self-sustained and financially autonomous demographic of young employees.

Approximately 35% receive financial support from their parents, and 16% have other sources of income. From this group, about 53% reported not having a say in how their money is managed, irrespective of its source. In contrast, 18% frequently take charge of their financial decisions, and 15% do so occasionally. The initial findings categorize respondents into two groups: those who earn and manage their finances independently and those who rely on parents or other sources, with a considerable portion handling their finances personally and a smaller fraction seeking assistance.

Regarding income management strategies, a notable 29% of respondents save without a structured plan or using banking tools. Around 24% have devised a plan to balance their income and expenditures, and 23% maintain a record of their transactions. A smaller segment, comprising 12%, utilizes banking or financial management apps, while 13% neither save nor track their expenses, opting for a more unrestrained spending approach. It was observed that the respondents aged between 25 and 40 were more inclined to save and formulate financial plans than the 16-24 age group, who predominantly do not engage in savings (refer to Figure 1).

The survey also captured the respondents' confidence levels in managing their finances. About 30% expressed uncertainty regarding their financial management skills, and 29% were slightly confident but expressed a desire to expand their knowledge of financial management. Meanwhile, 24% felt moderately confident in understanding most financial management aspects. Remarkably, a substantial 17% perceived themselves as highly competent in handling their finances, exhibiting a profound understanding of money management techniques. Therefore, hypothesis 1 is accepted.

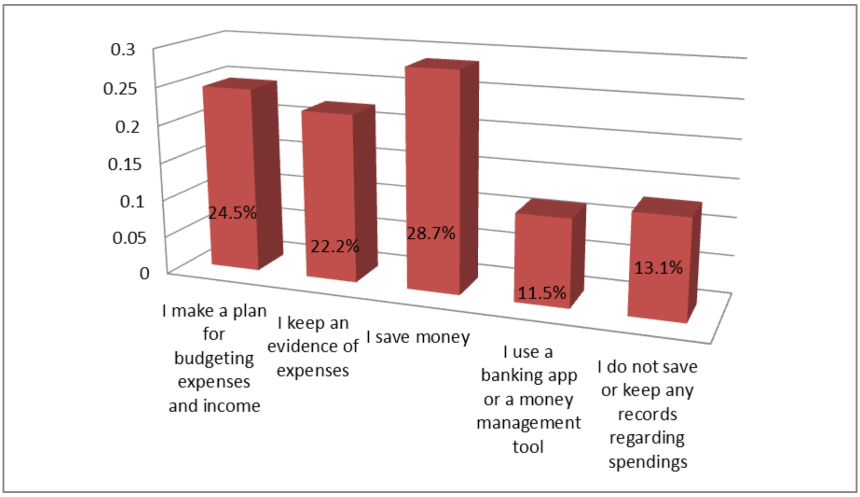

Figure 1. Financial activities carried out by respondents (Source: Authors' research results)

The most popular banking products among respondents are credit cards (17%), debit cards (16%), and current accounts (15%), indicating that these are also the most used banking products. Credit (11%) and bank installments (11%) are much more prevalent among 30-41-year-olds, and internet banking (10%) and mobile banking (11%) are more prevalent among 18-25-year-olds. Term deposit is known in a smaller proportion (9%), and respondents do not know any of these banking products (3.5%). As a multiple-choice question, respondents could select all the answer options corresponding to their knowledge of banking products. It was noted that respondents who selected the credit card option chosen also credit and bank rates. Respondents who selected the current account option also selected the term deposit option, believing there was a correlation between them.

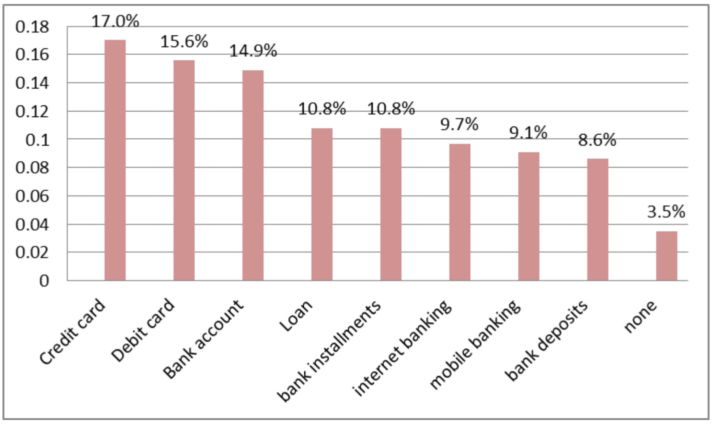

Figure 2. Banking products known by respondents
(Source: Authors' research results)

The most common banking terms among respondents were term interest (27%) and mortgage (23%). These terms were selected together 90% of the time. In other words, individuals familiar with the concept of term interest are also acquainted with the notion of a mortgage. A minor segment is aware of the term 'scoring,' but this represents a small fraction, at about 4%. Approximately 13% are conversant with the grace period, and around 10% comprehend the concepts of the degree of indebtedness and early repayment. About 13% of participants do not know of any of these banking terminologies. There isn't a discernible trend linking age groups to understanding specific banking terms among the selected respondents.

Nevertheless, there is a notable relationship between the comprehension of these terms and educational attainment. Most of those unfamiliar with any of the mentioned terms have a high school education. Regarding their geographical backgrounds, the respondents lacking knowledge of these terms are evenly distributed from rural and urban settings (refer to Figure 3). Thus, hypothesis 2 is accepted.

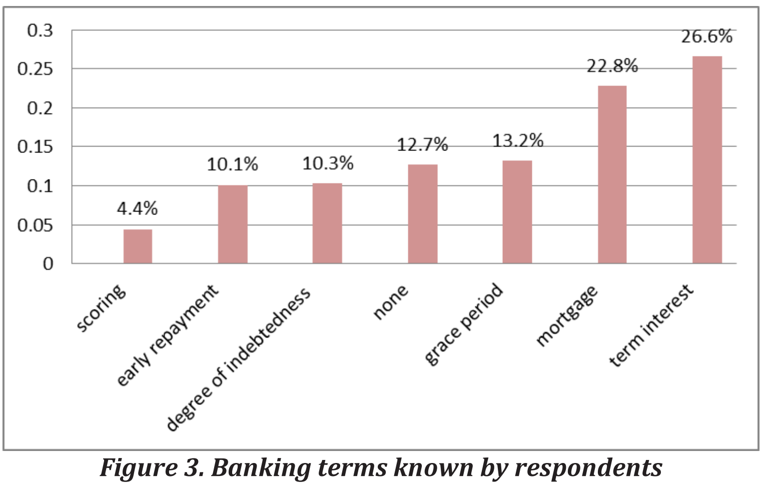

Figure 3. Banking terms known by respondents
(Source: Authors' research results)

To gauge the level of curiosity in understanding banking terms and products, participants were queried about their willingness to acquire more knowledge about them. A substantial portion of the respondents, 42%, prefer to seek information about them only when necessary, while 26% have no interest in learning about them. A smaller group, constituting 21%, consistently tries to stay informed, whereas just 10% maintain a continual awareness of these terms and products. The group that opts to educate themselves on banking terms only when required encompasses individuals from urban and rural settings, primarily holding medium to higher education levels, and generally between the ages of 18 and 35. We can conclude that the respondents have basic knowledge regarding banking terms (Hypothesis 3 is accepted).

The overwhelming majority of respondents have not attended a financial education course (76%), indicating a lack of financial education among them. Of these, 21% would like to attend a financial education course if they had the opportunity. Only 24% of respondents, most university graduates or students living in cities, have participated in a financial education course.

Respondents would be most interested in taking part in financial education courses where budgeting (26%) and investment (23%) topics are discussed. 19% would like to take part in courses on insurance, and 15% in courses on credit and taxes. Fewer people (7.5%) would attend financial education courses on credit cards, and 10% of respondents would be interested in other topics (see Figure 4). People interested in attending a course on budgeting are also interested in learning about investments. Those interested in learning about these are mainly young students or university graduates living in urban areas. So, hypothesis 4 is accepted: Most respondents have not participated in a financial education course yet exhibit interest in doing so.

56% of survey participants believe that schools and universities are the institutions that should provide financial education. There are also respondents (14%) who believe that banks should be responsible for the financial education of the population. 16% of respondents, mainly young people, believe that financial education should be promoted through the media. According to some respondents, all institutions presented are responsible for the financial education of young people.

The primary source of information among respondents is currently the Internet. 40% of them get information on financial matters from the Internet, and 28% seek this information from friends or family members. Only 11% of respondents ask for financial information from bank branches. Respondents who prefer to get information from the Internet are mainly young people, while those who choose to ask for information directly from the source are those over 30. This once again demonstrates the adaptability to digital transformation among the Youngers.

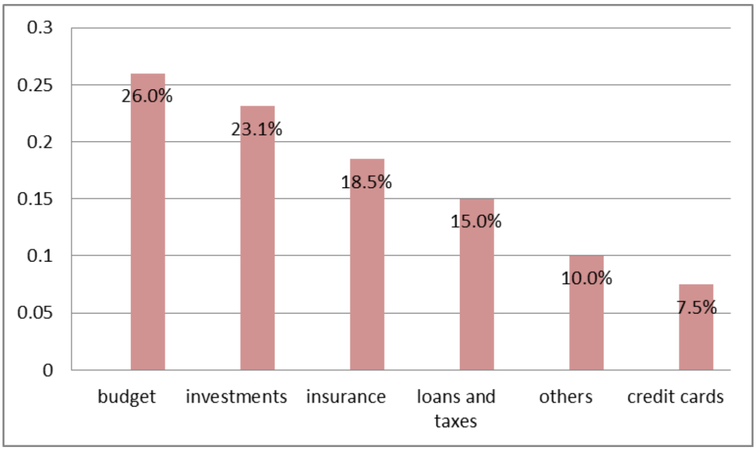

Figure 4. Subjects for financial education courses (Source: Authors' research results)

A total of 146 respondents utilize credit cards, 126 employ debit cards, in addition to 155 individuals using Internet and mobile banking services. Around 30% of individuals use credit and debit cards, and 40% utilize debit cards and Internet banking facilities. A small fraction, represented by 16 respondents, utilize all four primary banking products: credit cards, debit cards, internet banking, and mobile banking. Most who frequently use debit cards also perform ATM withdrawals, constituting 35.5% of respondents, and about 18% engage in merchant transactions using either debit cards or mobile banking apps. Among users of Internet banking applications, 13% maintain an income tracking system, and 21% actively engage in bank transfers. Internet and mobile banking predominantly find favor with the age group of 20-35 years.

It was observed that female respondents have a higher propensity to save than males, with women above 30 exhibiting a greater tendency to save. Examining the preferred saving methods of respondents, deposits or savings accounts emerged as the most popular choice, capturing 31% of the responses, followed by the practice of retaining cash, which accounted for 22%. A portion of the respondents, constituting 16%, resort to alternative saving strategies, while a mere 8% opt to invest in assets of value. Alarmingly, 59 respondents, making up 23.5% of the total, do not engage in any saving activities. Breaking down the demographic attributes of this segment, it was found that 74% are males within the age bracket of 16-26, and the remaining 26% are females aged between 18 and 25.

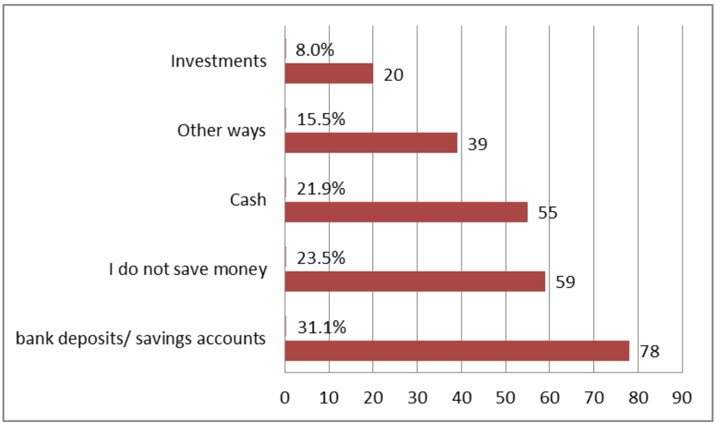

Figure 5. Ways in which respondents save money
(Source: Authors' research results)

In the respondents' opinion, the financial education level is above average. Rated on a scale of 0 to 10, where 0 represents not at all informed and 10 represents very informed, the average is 6.4%. Some 26% of respondents rated their level of financial knowledge as 7, while only 2% rated it as 1. The results of this question are inconsistent with the answers to the previous questions, with respondents rating their level of financial knowledge higher than reflected in their answers to the other questions. The results are the sum of the answers selected by the participants to a given question. The percentage for each option was calculated by dividing the sum of the same options by the total responses.

Conclusions

The study results show that the level of financial literacy among the participants in the survey is low. It was observed that various socio-economic and demographic factors such as age, gender, location, and education level influence the level of financial literacy, and there is an interrelationship between financial knowledge and financial behavior. It was thus found that young people aged 16 to 22 do not manage their income themselves because it comes from their parents or other sources, while people over 22 who are employed manage their income themselves. People aged 25-40 save and make a management plan for income and expenditure, while respondents aged 16-24 do not save or save to a small extent. There was also a positive saving trend among females. Women aged 25-35 also keep a record of expenditure or use various income management tools, while young people (women and men) aged 16-24 do not save at all.

Only a small proportion of respondents feel very confident about their ability to manage their own income, including people over 35 who have completed tertiary education. The remainder are unsure or somewhat confident and want to know more about managing their income. These respondents also believe that this financial knowledge can be acquired with the help of courses on various financial education topics that should be organized in schools and universities. The most popular topics among respondents are budgeting, investing, and insurance.

Some banking terms such as grace period, debt level, early repayment, or scoring are rarely used among young respondents (16-24 years) and less so among young people in rural areas. The most familiar terms among respondents of all ages are mortgage and term interest. Credit and debit cards are the most familiar but widely used banking products among respondents. However, there is a possibility of confusion between credit and debit cards. Far fewer respondents are aware of and use internet banking and mobile banking, and these are mainly urban dwellers. Thus, people over 35 in rural areas prefer ATM withdrawals, cash payments, and saving cash. In contrast, people of all ages in urban areas use Internet banking applications and make bank card payments.

Although most survey participants do not know how to manage their money and do not use income management tools, nor have they attended financial education courses, they rated themselves above average financial literacy (6 on a scale of 0 to 10). This shows that although the level of financial literacy among the selected population is low, they are unaware of this and refuse to seek information from reliable sources.

In conclusion, the level of financial education is low among the population investigated, especially among young people in rural areas. Surprisingly, young people under 20 are less informed and aware of the importance of financial knowledge than those over 25. People with tertiary education are more mindful of the importance of financial education and have a greater ability to manage their income and use banking tools than people with secondary education. Financial responsibility and information were also higher among women than men.

Romania's financial literacy level is considered relatively low compared to other European countries. Our research, consistent with numerous other studies, indicated that a substantial segment of the Romanian populace displays a limited understanding of fundamental financial principles. These studies indicated gaps in understanding topics such as interest rates, inflation, and risk diversification. The low level of financial literacy was reflected in savings behavior, debt management, and investment choices.

The Romanian government and other organizations have been working to improve financial literacy through education initiatives, including programs targeting young people to cultivate better financial habits and understanding early on. Research could evaluate the effectiveness of any policies or programs implemented by the government or non-governmental organizations in improving financial literacy. This could help in refining these initiatives for better outcomes in the future.

For future research on financial literacy in Romania, considering the context of a rapidly evolving financial landscape globally and in Romania, several promising directions could be explored, such as digital literacy integration. As the financial ecosystem evolves with new technology, researching how digital literacy correlates with financial literacy will be vital. Understanding how the Romanian population navigates digital financial platforms could offer insights into developing more effective financial literacy programs.

Moreover, examining the role of educational institutions in fostering financial literacy from an early age could be a critical area of study. It would be interesting to explore how curriculum changes in schools and universities influence the financial literacy levels of students. Investigating regional disparities within Romania regarding financial literacy could offer more profound insights. It may help understand whether certain regions need more focused intervention than others. Nevertheless, developing research focusing on the youth demographic could help understand their financial habits and literacy levels, which can aid in crafting educational programs that cater to their specific needs. By pursuing these research directions, we hope to gain a more nuanced understanding of the state of financial literacy in Romania and identify effective strategies for improving it in the future.

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