

Evidence on financial literacy and financial inclusion in Albania



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JEL codes: D83, D91, G53.

Keywords: Financial literacy, financial well-being, behavioral economics.

This article presents evidence on the financial literacy and financial inclusion in Albania based on “Financial Literacy Survey” of Bank of Albania done during 2019. The data show that the level of financial literacy of Albanians is low compared with the average of individuals in the world. Individuals in Albania own only 53% (11.2 out of 21) of the total financial knowledge, behaviors and attitudes, which is reflected in a low level of financial inclusion. Only 54% of Albanians aware at least five financial products, compared to 83% of individuals globally. Also, the use of payment products is almost 2.5 times lower than the global level. The data display a low score of financial well-being of individuals in Albania, which reflect their unsecured about finances and planning for the future.

¹ The opinions and views presented in this article are those of the author and do not represent those of Bank of Albania.

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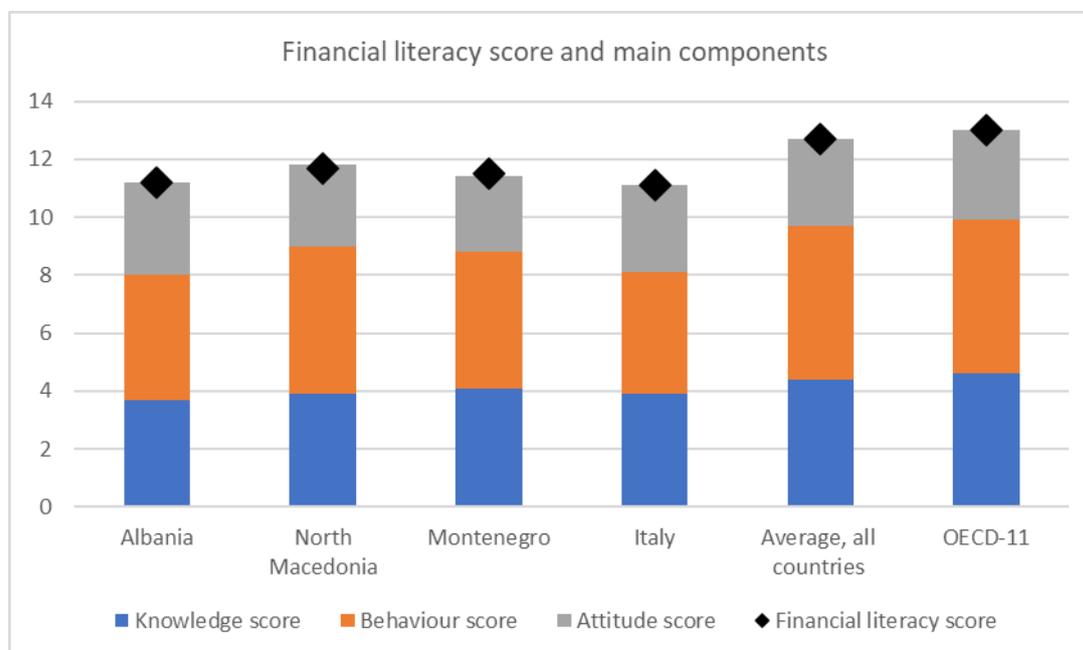
I. A look at financial literacy in Albania

The importance of financial literacy and education² has been emphasized even more in latest decades taking into account recent financial, technological, demographic and economic developments. These developments have been accompanied by the provision of more financial products and services, but also more complex ones, which have increased financial inclusion of consumers, but have affected the way individuals think about savings, investments, pension and investment funds etc. On the other hand, these developments have made individuals face new challenges and risks arising from the variety and complexity of the products offered, especially in the absence of financial literacy (OECD, 2005).

In developing countries like Albania, increasing financial literacy is important not only for the awareness toward financial products and services, but also to financial risk that individuals are exposed, with the aim to empowering the financial position of individuals. Based on OECD definition financial literacy is a combination of financial knowledge, behavior and attitude necessarily to make sound financial decisions in order to achieve financial well-being of individuals (OECD/INFE 2018).

Based on survey data, financial literacy score for Albanians in 2019 is 11.2 (out 21, the maximum level), which indicates a low level of financial literacy. This score is 1.5 and 1.8 points lower than the average score of countries, which have participated in 2019, OECD survey (chart 1). Furthermore, the data show that Albanians possess only 53% of financial knowledge, behaviors and attitudes, while globally individuals possess an average 61% (12.7 out of 21) of them. It is noticed that there are differences in financial literacy between countries (chart 1), where most of them have a score between 12 and 14, which indicates that low level of financial literacy is a global issue and challenge (OECD, 2020).

Chart 1: Financial literacy score and main components



Source: OECD (2020), "Financial Literacy Survey in Albania" (2019).

² Financial education is the process by which consumers or financial investors improve their understanding of financial products and their risks, through objective information, guidance and / or advice; develop the skills and confidence to become more aware of the risks and opportunities of finance, to make appropriate (informed) financial choices by heading to the right places, and to take action to improve their financial well-being.

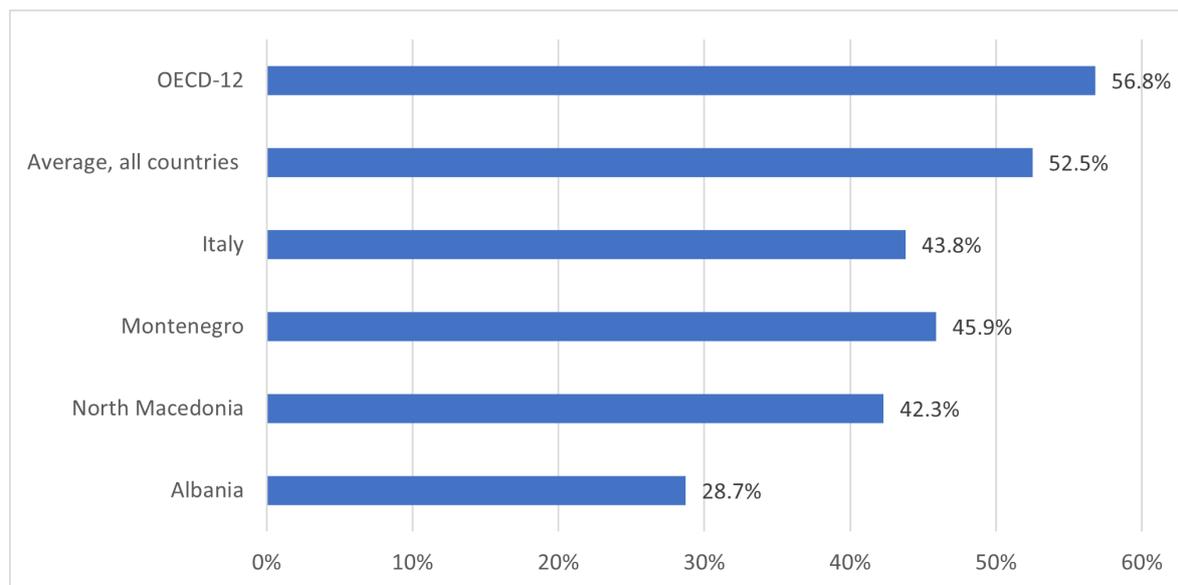
In addition, we have assess each component of financial literacy and we have emphasized the differences with other countries. For Albania, financial knowledge score is estimated at 3.7 which is lower than the average of OECD countries (4.6) and all countries that participated in the survey (4.4). In general, the assessment for individuals in Albania is comparable to that of our neighboring countries, such as Montenegro and North Macedonia, which participated in the survey. While in table 1, are shown the percentage of individuals who gave a correct answer for each questions on financial knowledge. The data show that Albanians lack financial knowledge about the time value of money, as well as the compound interest rate, with 26% and 11% of individuals answering correctly. There seems to be difficulty in understanding the simple interest rate, where more than half of individuals give incorrect answers. Individuals in Albania have more knowledge about the interest rate on loans, risk, return, and diversification, which are somewhat closer to the average of countries that participated on 2019, OECD survey. The data show that only 70% of individuals in Albania recognize the definition of inflation, but this percentage is 10 percentage points lower than the average of OECD countries, but comparable to the results in Montenegro and Italy.

Table 1: Percentage of individuals who gave a correct answer to each question

Questions on financial knowledge	Albania	North Macedonia	Montenegro	Italy	Average, all countries	Average, OECD-12
1. Time value of money, impact on inflation	25.9%	60.8%	61.4%	50.5%	65.5%	59.9%
2. Loan interest rate	83.7%	72.9%	87.4%	78.2%	87.4%	84.4%
3. Simple interest and principal calculations	46.4%	44.8%	65.8%	59.4%	57.2%	57.1%
4. Compound interest	10.5%	12.3%	13.9%	23.1%	28.8%	26.3%
5. Understanding risk and return	74.3%	68.6%	75.9%	64.7%	79.0%	77.1%
6. Understanding the definition of inflation	69.3%	78.2%	70.4%	65.1%	80.9%	78.0%
7. Understanding risk diversification	61.1%	55.1%	35.9%	51.3%	63.3%	58.9%

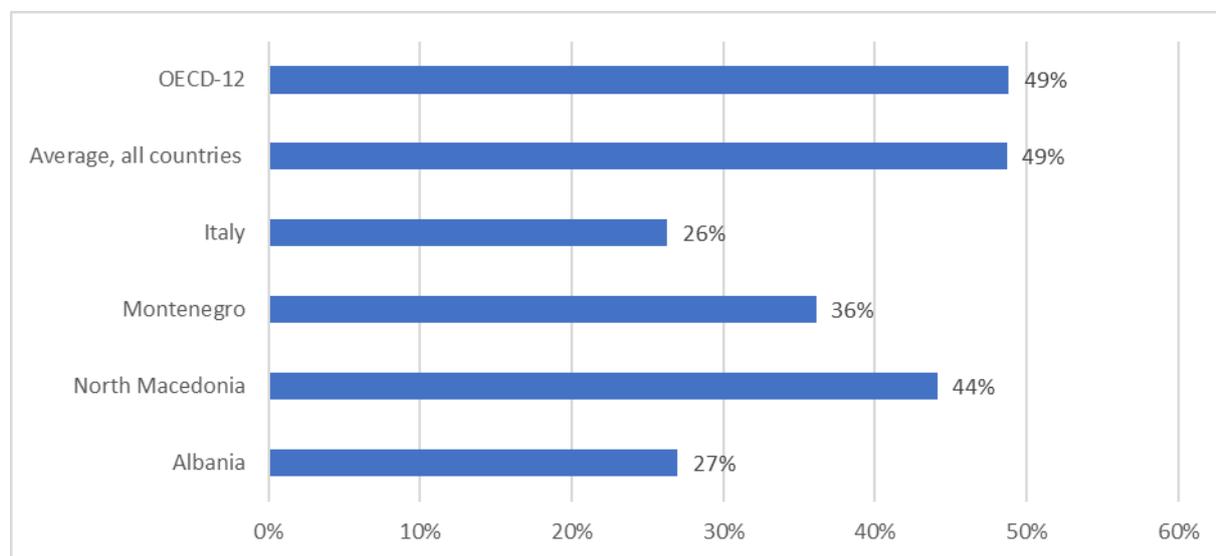
Source: OECD (2020), "Financial Literacy Survey in Albania" (2019).

Only 29% of individuals in Albania possess minimal financial knowledge, lower compared to the level of countries in the region, as well as other countries participating in the survey (chart 2).

Chart 2: Percentage of respondents with minimum financial knowledge

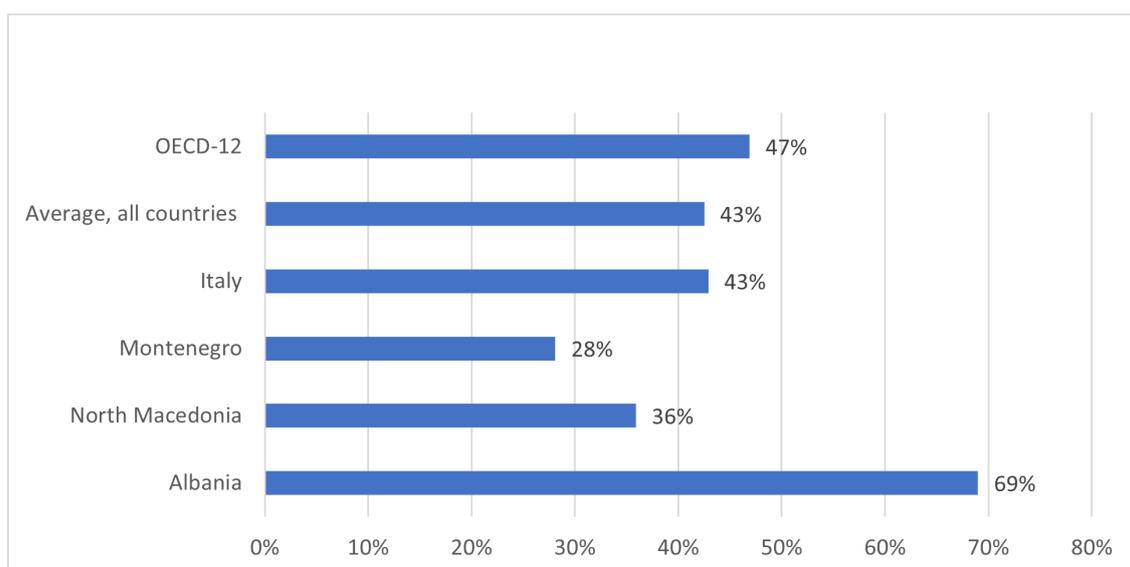
Source: OECD (2020), "Financial Literacy Survey in Albania" (2019).

As we presented above financial behavior score for is 4.3 out to 9 (maximum value of the index), which means that Albanians own only 47% of the appropriate financial behavior, less compared to others countries. In addition, data show that 27% of individuals in Albanian have the minimum financial behavior, where other countries despite Italy are in better positions (chart 3).

Chart 3: Percentage of individuals with minimum financial behavior (financial behavior index value 6 or more)

Source: OECD (2020), "Financial Literacy Survey in Albania" (2019).

In 2019, financial attitude score for Albania is 3.2 (out of 5) and shows that individuals own 64% of the appropriate financial attitude. This score is slightly higher than the average of all countries that participated in the survey and average of OECD countries (chart 3). In addition, the data show that 69% of individuals in Albania possess the minimum financial attitudes (financial attitudes score greater than 3) exceeding the average of all countries (chart 4).

Chart 4: Percentages of individuals with financial attitudes score greater than 3

Source: OECD (2020), "Financial Literacy Survey in Albania" (2019).

Taking the advantages of micro data we have identified that most vulnerable groups of individuals in terms of financial literacy are: women, the youth, the elderly, and individuals with low levels of education, the unemployed, housewives, low-income individuals and individuals in rural areas. These group should be given priority at financial education program and strategy to further improve their financial literacy.

Table 2: Percentage of individuals with minimum financial knowledge, behavior and attitude based on socio-demographic characteristics in Albania

		Percentage of individuals with minimum financial knowledge	Percentage of individual with minimum financial behavior	Percentage of individual with minimum financial attitude
Total		28.7%	27%	56.2%
Gender	Women	23.4%	23%	60.1%
	Men	34.2%	31%	52.2%
Age	18-29 years	34.9%	24%	42.6%
	30-59 years	31.9%	32%	61.2%
	60-79 years	17.4%	18%	58.4%
Area	Urban	28.2%	32%	51.5%
	Rural	29.2%	21%	61.1%
Education	Tertiary level	46.5%	48%	49.5%
	Secondary level	31.7%	31%	53.0%
	Basic level	16.6%	11%	63.1%
	No education	0.0%	0%	56.0%
Employment status	Self-employed	38.1%	41%	60.7%
	Employed	38.3%	47%	52.3%
	Student	54.3%	18%	34.9%
	House person, economically inactive	16.9%	17%	65.0%
	Unemployed	20.6%	5%	50.0%
	Incapable for work	16.7%	14%	59.0%
Income level	Low level	21.7%	14%	58.7%
	Medium level	34.1%	35%	55.0%
	High level	41.5%	56%	50.4%

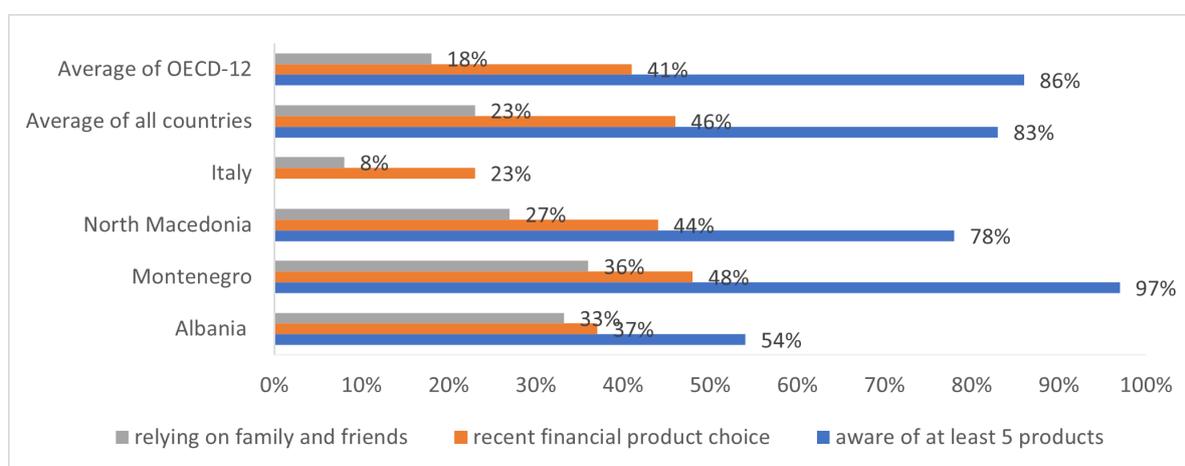
Source: OECD (2020), "Financial Literacy Survey in Albania" (2019).

II. Financial inclusion and financial well-being in Albania

As mentioned above, in addition to financial literacy and strengthening consumer protection, financial inclusion is an important component to further improve the financial wellbeing of individuals and to boost financial stability.

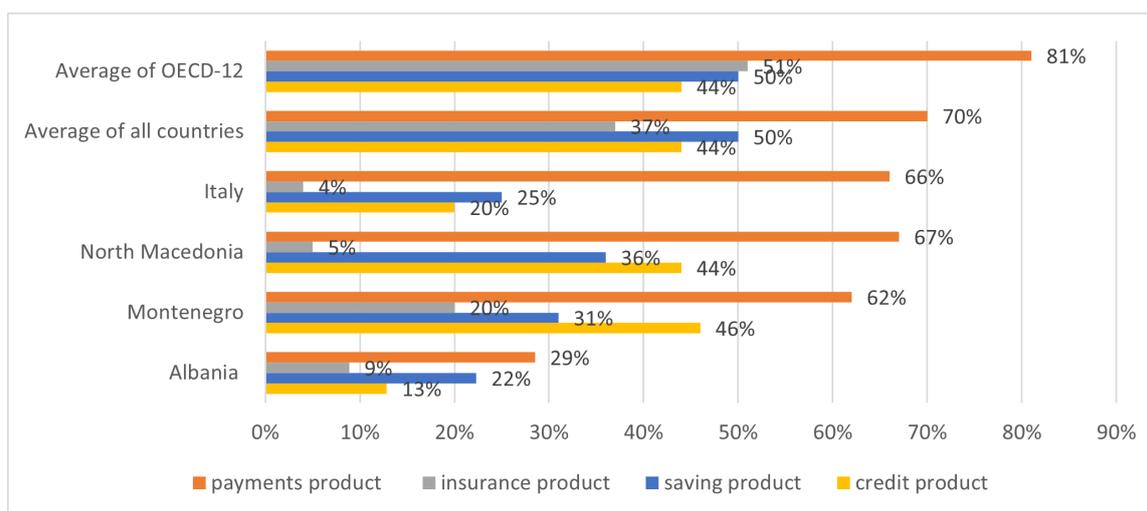
The data on financial inclusion indicators presented in chart 5 show that percentage of awareness and usage of financial products in Albania is below the average of countries participating in the OECD survey. In Albania only 54% of individuals aware at least 5 financial products, below the global level (83%) and OECD countries level (86%), but even below the level of our neighbors countries. The data show that 33 % of Albanians relying of family and friend to borrow and save, than to formal financial sector, which is a signal for authorities to intensify their work on financial inclusion and financial education.

Chart 5: Indicators of financial inclusion



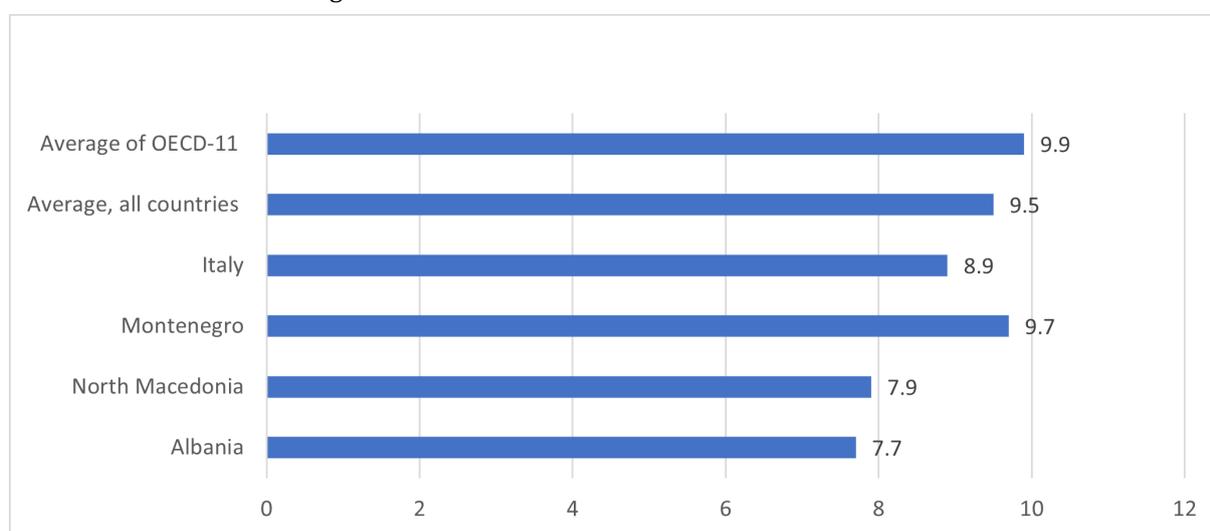
Source: OECD (2020), "Financial Literacy Survey in Albania" (2019). Note: Missing data on Italy, regarding the awareness recognition of at least five financial products.

Chart 6 presents data on OECD indicators for possessing financial product, which is highly heterogeneous across countries. The data show that payments product is held by 70% of individuals in the world and 81% of individuals in OECD countries. At global level 50% of individuals hold savings products, following by credit products (44 %) and insurance products (37 %). In Albania the percentage of having financial products is almost 2 to 4 times lower compared to global level. Thus, 29% of Albanians have payments products, 22 % have savings products, 13 % own credit products and 9 % held insurance products.

Chart 6: Holding of financial product

Source: OECD (2020), "Financial Literacy Survey in Albania" (2019).

As we mentioned above, financial wellbeing is the financial goal of financial literacy and financial inclusion. The score of the financial wellbeing is calculated based on the self-assessment of the individual on different statements³. For Albania this score is 7.7 (out of 20), below the global score of countries participated in OECD survey (chart 7). In addition this level for Albanians show that they are uncertain about their finances, fragile to resist to financial shocks and preventing them for planning for the future.

Chart 7: Financial well-being index

Source: OECD (2020), "Financial Literacy Survey in Albania" (2019).

III. Final remarks

The survey data of 2019 show that financial literacy score of individuals in Albania is 11.2 (out of 21), below the global average of countries assessed by the OECD (2020). It is estimated that Albanians have only 53% of financial knowledge, behaviors and attitudes. In addition, survey data show low level of financial inclusion, 2-3

³ For more details please see OECD/INFE, 2018 methodology.

times lower than the global level. Albanians are characterized by a higher level of awareness of financial products, but a lower level of their use. Compared with other countries, there are still many differences on financial inclusion indicators and product holding. The financial well-being index, considered as the final objective of financial culture is estimated at 7.7 out of 20, for individuals in Albania and is lower compared to global value of this index. This result shows that Albanians feel unsecure about their future, have less confidence to absorb financial shocks and are unable to plan for the future.

Using the advantage of micro data we have identified that women, the youth, the elderly, individuals with low levels of education, the unemployed, housewives, low-income individuals and individuals in rural areas are characterized by a lower level of financial literacy in Albania. These groups should be at the center of financial education policies and programs to further improve their level of financial literacy, which will result in a higher financial inclusion and financial well-being of individuals in order to have a sustainable macroeconomic growth in the long run. ■

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