
The State of Financial Literacy in Romania

FEBRUARY 15 2020

COMPANY NAME

By: Sanjidah Ali

Introduction

Financial literacy is a core component of the financial empowerment and resilience of individuals, as well as the overall stability of the financial system. This is because sound financial knowledge allows individuals to have better control over their finances and saving. Furthermore, it helps individuals avoid excessive indebtedness and they understand financial and economic risks more.

This report illustrates the state of financial literacy in Romania using survey results from the Organisation for Economic Co-operation and Development (OECD) adult financial literacy surveys that focused on South East European countries.¹The countries that were surveyed includes; Bulgaria, Croatia, Georgia, North Macedonia, Moldova, Montenegro, and Romania. The survey focuses on three elements of financial literacy; financial knowledge, financial behaviour and financial attitudes as well as elements of financial inclusion. Overall, it appears that Romania has one of the lowest levels of financial literacy in South East Europe (SEE).²

¹ OECD (2020), 'Financial Literacy of Adults in South East Europe' (OECD, 19 November 2020) < [Financial Education in South East Europe - OECD](#)> accessed 24 December 2020

² OECD (2020), 'Financial Literacy of Adults in South East Europe' (OECD, 19 November 2020) < [Financial Education in South East Europe - OECD](#)> accessed 24 December 2020

Financial Knowledge

A basic knowledge of financial concepts and the ability to apply numeracy skills in a financial context allows consumers to act autonomously to manage their financial matters. It ensures they can react to news and events that may have implications for their financial wellbeing. The evidence suggests that higher levels of financial knowledge are associated with positive financial outcomes such as, planning for retirement, as well as a reduction in negative outcomes such as, indebtedness.³

The financial knowledge survey asked questions on the following different concepts and terms; understanding time value of money, interest paid on a loan, simple interest calculation, understanding compound interest, understanding both simple and compound interest correctly, relationship between risk and return, understanding of inflation and lastly, understanding risk diversification.⁴

Figure 1 shows the financial knowledge scores of all SEE countries that participated in the survey and it is clear that Romania had the lowest percentage for questions answered correctly (49%) as well as the lowest survey score (4.1 out of 7) with both measures being below the average.

³ OECD (2020), 'Financial Literacy of Adults in South East Europe' (OECD, 19 November 2020) < [Financial Education in South East Europe - OECD](#)> accessed 24 December 2020

⁴ OECD (2020), 'Financial Literacy of Adults in South East Europe' (OECD, 19 November 2020) < [Financial Education in South East Europe - OECD](#)> accessed 24 December 2020

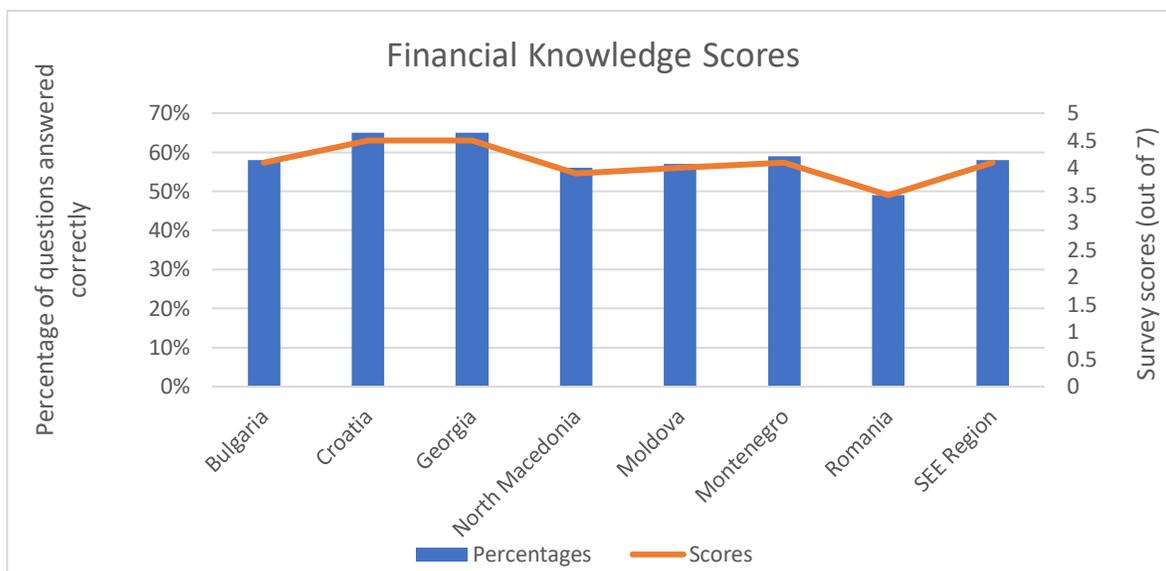


Figure 1- Financial Knowledge Scores for SEE countries (OECD, 2020)

Figure 2 below shows Romania's scores for each financial knowledge questions. Romania's scores are quite alarming as there are only 3 questions out of 8 where the majority answered correctly. Figure 2 highlights that interest is a financial concept that Romanian's particularly find difficult to understand.

Question	Time Value of Money	Interest Paid on Loan	Simple Interest Calculation	Understanding Compound Interest	Understanding both Simple & Compound Interest correctly	Relationship between Risk & Return	Understanding of Inflation	Understanding of Risk Diversification
Percentage that answered correctly	37%	77%	39%	23%	14%	64%	64%	44%

Figure 2- Romania's scores to each Financial Knowledge question (OECD, 2020)

Financial Behaviour

A consumer's financial behaviour will determine their financial well-being and resilience in the short and long-term. Moreover, the digitalisation of finance is changing consumers' financial behaviour which is why there is an even greater need to understand consumers' financial behaviour to assess financial literacy.

The OECD Adult Financial Literacy survey 2020 looks at positive and negative behaviours which includes; thinking before purchasing, paying bills on time, saving, budgeting and, borrowing to make ends meet.⁵ These behaviours in the context of Romanian consumers are examined below.

Figure 3 shows the percentage of Romanians that agreed with the questions asked about financial control. It also includes the region's average for each question. It suggests that the element of financial control that Romanians are most focused on is making timely bill payments which is positive. However, to have full financial control, more Romanians need to focus on the other behaviours that make up financial control.

	Responsible for money management and has a budget	Make considered purchases	Timely bill payments	Keep track of financial affairs
Romania	68%	67%	80%	64%
SEE Region	63%	71%	81%	67%

Figure 3- Financial Control behaviours (OECD, 2020)

⁵ OECD (2020), 'Financial Literacy of Adults in South East Europe' (OECD, 19 November 2020) < [Financial Education in South East Europe - OECD](#)> accessed 24 December 2020

Figure 4 shows the percentage of Romanians that have used certain savings and investment approaches to measure the levels of financial resilience in Romania as well as the region's average for each approach. The table highlights that Romanians, like other countries in the SEE region, prefer to keep cash at home as opposed to having a savings or deposit account as a method of saving. This suggests that there is less use of formal banking in Romania and the region which may be due to a lack of information about the products that formal banking offers. Furthermore, there appears to be significantly low interest in investing with the only investment class that generates some interest is real estate.

	Have a savings/deposit account	Give money to friends/family member to save	Invest in stocks/shares	Keep cash at home or in the wallet	Invest in real estate
Romania	20%	12%	3%	53%	7%
SEE Region	22%	12%	2%	55%	8%

Figure 4- Financial Resilience behaviours (OECD, 2020)

Figure 5 demonstrates what methods and approaches Romanians pursue to make up for a shortfall in their income. The table highlights that borrowing from family and friends is the most popular source of financial support. It appears that Romanians and other countries in the region are more likely to use informal sources of financial support such as, payday loans rather than seeking support from the formal banking system.

	Took out a payday loan	Used arranged overdraft	Took out personal loan from financial service provider	Used credit card for cash advance	Borrow from friends/family
Romania	12%	5%	3%	4%	34%
SEE Region	7%	4%	4%	3%	29%

Figure 5- Methods to make up for income shortfall (OECD, 2020)

Financial Attitudes

The OECD defines financial literacy as “a combination of awareness, knowledge, skill, attitude and behaviour necessary to make sound financial decisions and ultimately achieve individual financial wellbeing”⁶. This definition recognises that consumers’ financial attitudes will influence their financial decisions.

For this survey, participants gave their responses to three attitude statements which are used to gauge participants’ attitudes towards money and planning for the future. Each statement focuses on preferences for the short term which would not improve the financial resilience and well-being of consumers. It is argued that more financially literate people would tend to disagree with the statements given to the survey participants.⁷

The first statement says the following- “I find it more satisfying to spend money than to save it for the long term”. Figure 6 shows the responses that the Romanians gave to the first statement. The table illustrates that ‘Neutral’ is the most popular response from the Romanians which is in line with the average for the region. This suggests that majority of Romanians have short-term attitudes in terms of spending money.

	Completely agree	Agree	Neutral	Disagree	Completely disagree
Romania	12%	20%	37%	18%	11%
SEE Region	25%	18%	26%	12%	16%

Figure 6- Responses to Financial Attitudes question 1 (OECD, 2020)

⁶ OECD (2020), ‘Financial Literacy of Adults in South East Europe’ (OECD, 19 November 2020) < [Financial Education in South East Europe - OECD](#)> accessed 24 December 2020

⁷ OECD (2020), ‘Financial Literacy of Adults in South East Europe’ (OECD, 19 November 2020) < [Financial Education in South East Europe - OECD](#)> accessed 24 December 2020

The second statement says the following- “I tend to live for today and let tomorrow take care of itself”. Figure 7 shows the responses that the Romanians gave to the second financial attitudes statement. The most popular response from the Romanians is ‘Neutral’ which differs from the region’s average which is ‘Completely disagree’. This implies that Romanians tend to live in the present with very little focus for their future finances.

	Completely agree	Agree	Neutral	Disagree	Completely disagree
Romania	8%	24%	39%	19%	8%
SEE Region	13%	13%	21%	16%	33%

Figure 7- Responses to Financial Attitudes question 2 (OECD, 2020)

The third statement says the following- “Money is there to be spent”. Figure 8 shows the responses that the Romanians gave to the third financial attitudes statement. The joint most popular responses are ‘Completely agree’ and ‘Neutral’ which suggest that Romanians do not value the other uses of money as majority believe money is there to be spent.

	Completely agree	Agree	Neutral	Disagree	Completely disagree
Romania	28%	27%	28%	13%	4%
SEE Region	39%	25%	22%	7%	5%

Figure 8- Responses to Financial Attitudes question 3 (OECD, 2020)

Financial Inclusion

The OECD Adult Financial Literacy survey measures financial inclusion by observing what proportion of Romanian adults hold various financial products because if there are very low levels of consumers holding financial products in a country then, this would suggest that the financial system is not inclusive.⁸

Figure 9 shows what percentage of Romanians hold different types of financial products. The graph highlights that the most popular financial product that is held in Romania and in the SEE region is a current account payment card. The least popular financial products are insurance products and savings, investment or retirement products which suggests that Romanians are not that interested in long-term financial planning.

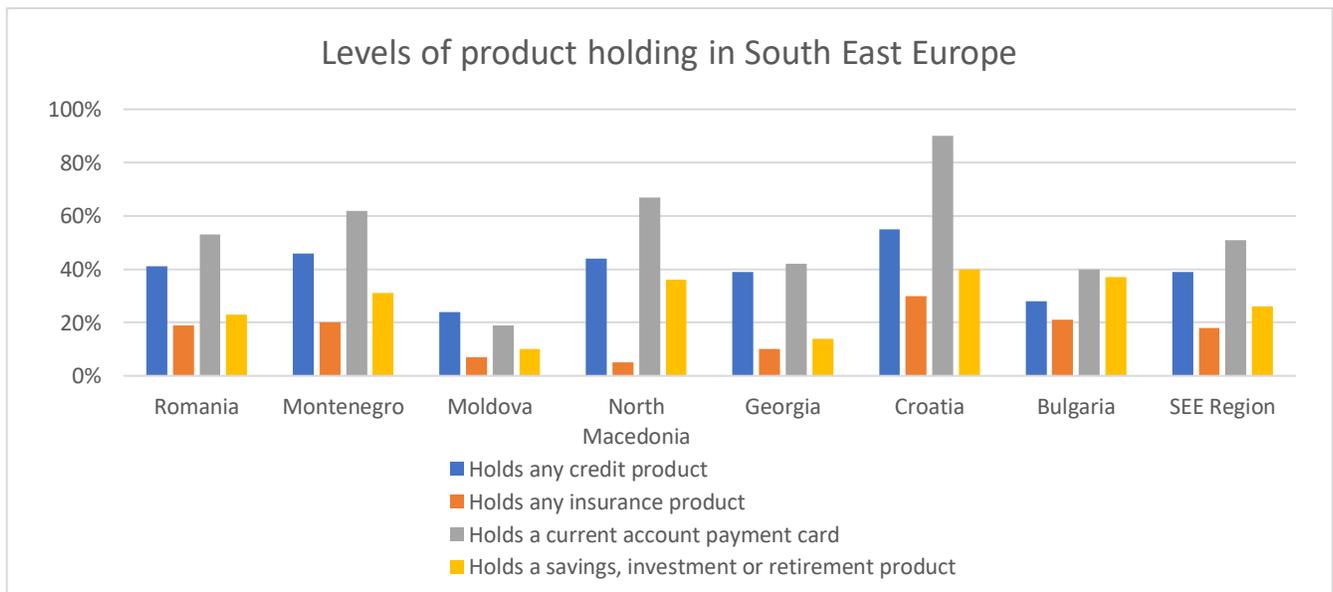


Figure 10- Financial products held (OECD, 2020)

⁸ OECD (2020), 'Financial Literacy of Adults in South East Europe' (OECD, 19 November 2020) < [Financial Education in South East Europe - OECD](#)> accessed 24 December 2020

Conclusion

In conclusion, like most countries around the world, there is a need to improve financial literacy and inclusion in Romania. For most questions and measures in the OECD's surveys, Romania was in line with the SEE region's average which implies that Romania's adult financial literacy is not severely poor when compared to neighboring countries. However, it is clear from the OECD's surveys' results that in Romania, majority of consumers tend to have short-term attitudes, rely on informal networks for financial support, do not utilise all the different uses of money and do not understand core financial concepts.