A snapshot on Bank of Albania communication approach and Financial literacy

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Bank of Albania

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Outline

- Central bank communication revolution

- How and what BoA communicate

- Some evidence of financial literacy in Albania

- Final remarks

I. Central bank communication revolution in thinking and practice

- Central bank communication is considered a core part of monetary policy toolkit due to influence on the expectations of markets participants, firms and consumers. As a result, many central banks have become remarkably <u>more transparent over the past 15 years</u> and have started placing much greater weight on their communications.

- Evolution in central banking, combine with high uncertainty caused by global financial crisis, Covid-19 and Ukraine war have embarked central banks on another journey, largely unexplored. This new road leads to a different audience, namely as non-experts (Gardt et al.(2021)).

- Reaching out to non-experts raises a number of challenges. Blinder (2018) stress that "central banks will keep trying to communicate with the general public, as they should. But for the most part, they will fail."

- Generally no-experts know less about central banks, might not be in reach, and will not necessarily respond as fast and visibly to central bank messages. Haldane et al. (2020) emphasize that central bank communication with the public need more "<u>explanation, engagement and education</u>" than experts.

II. Bank of Albania Monetary policy framework

- *Monetary policy framework*
  - In 1992 establishment of Bank of Albania, new law of 1996 fulfill and the marked a noticeable improvement in legal and institutional framework of central bank as an independent authority.
  - The subsequent law of 1997, amended in 2002 and still in force today, further clarified the objective of monetary policy by specifically defining its goal as "… to achieve and maintain price stability."
  - From 1992-2008, Monetary targeting regime (Themeli, 2010)
  - Since 2009,Inflation targeting framework
    - Independency
    - Accountability
    - Transparency

- *Monetary policy communication approach*
  - Initially and important step was the publication of a mid-term strategy of BoA presenting its vision, monetary policy strategy, objectives and instruments
  - In following years, transparency and communication with the public became a core part of monetary toolkit.
    - Periodic publication of the Monetary Policy Document
    - Immediate publication of monetary policy decision followed by live press conference of the governor.
    - Constant improvement of monetary policy reports, inflation analysis, and forecasting process.
    - BoA's assessment about current and future economic developments, their impact in inflation,future stance of monetary policy

II. How and what BoA communicate

| Periodical publications	Research Publication	Surveys	Educational publications	Specific publications
• Annual report • Monetary policy report (quarterly) • Monetary policy • Financial Stability report (semiannual) • Annual supervision report • Monthly statistical report • Central bank highlight, news and events (semiannual)	• Economic review • Research newsletter • Research papers • Conference book series	• Business and consumer confidence survey • Lending standard survey • Financial situation and borrowing of households and enterprises • Real estate market and residential price index • Household wealth survey	• Central bank • Education of personal finance • Others	• Medium-term development strategy of Bank of Albania • Governor public appearance (annually)

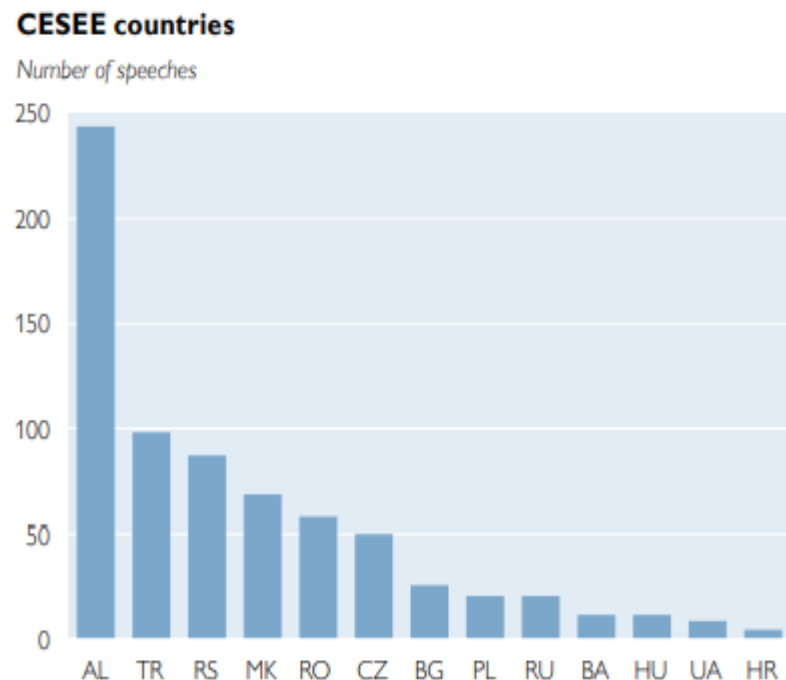# II.Evolution of central bank transparency index

Graph 1: Evolution of BoA transparency index
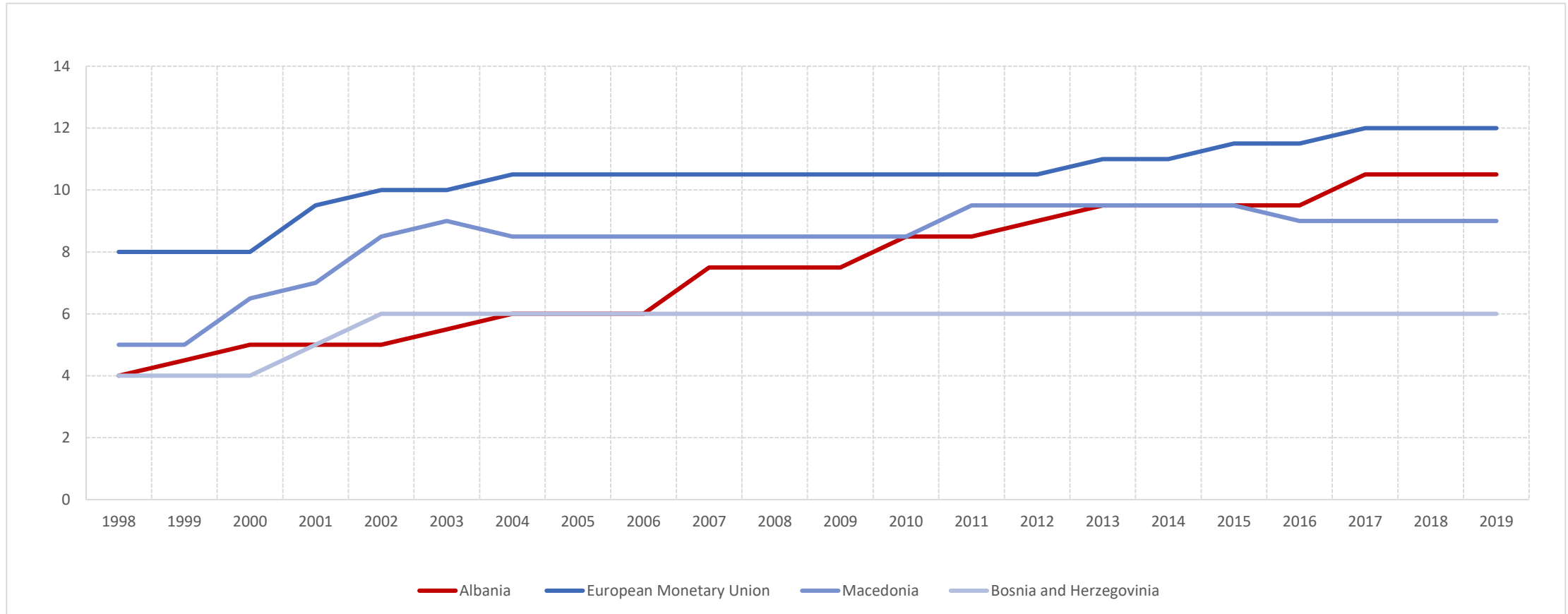
Source: Dincer, Eichengree & Geraats (2022)

II. What do central bank talk about? A European perspective on central bank communication (Feldkircher et al, (2021)).

Graph 2: Number of speeches from 1997-2019

Graph 3: Main topics in central bank speeches

Topic 1-European integration   Topic 2- Monetary policy Topic 3-Financial stability Topic 4-Outside box

CESEE countries

Number of speeches

Topic prevalence in central bank speeches by CESEE country

| Country	Topic 1	Topic 2	Topic 3	Topic 4
Albania	0.10	0.13	**0.28**	0.22
Bosnia and Herzegovina	0.28	0.05	**0.30**	0.26
Bulgaria	0.26	0.05	**0.40**	0.25
Croatia	0.31	0.11	0.09	**0.35**
Czechia	0.21	0.15	0.14	**0.43**
Hungary	**0.23**	0.18	0.19	**0.23**
North Macedonia	0.19	0.10	0.25	**0.29**
Poland	0.17	0.13	0.09	**0.39**
Romania	**0.31**	0.10	0.15	0.30
Russia	0.04	0.13	**0.27**	0.13
Serbia	0.15	0.08	0.20	**0.29**
Ukraine	0.04	0.17	0.11	**0.33**
Turkey	0.10	**0.25**	0.21	0.12

Source: Authors' calculations.

Note: The table shows the probability of topic assignment (θ), averaged over documents per central bank. The highest mean probability per central bank is marked in bold.

Source: Feldkircher et al (2021), FEEI, Q2_21

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II. Readability of BoA speeches and inflation expectation gap

Graph 4: Flesch-Kindcaid Grade Level English and Albanian from 2005-2016

Graph 5: Expected inflation rates over next 12 months
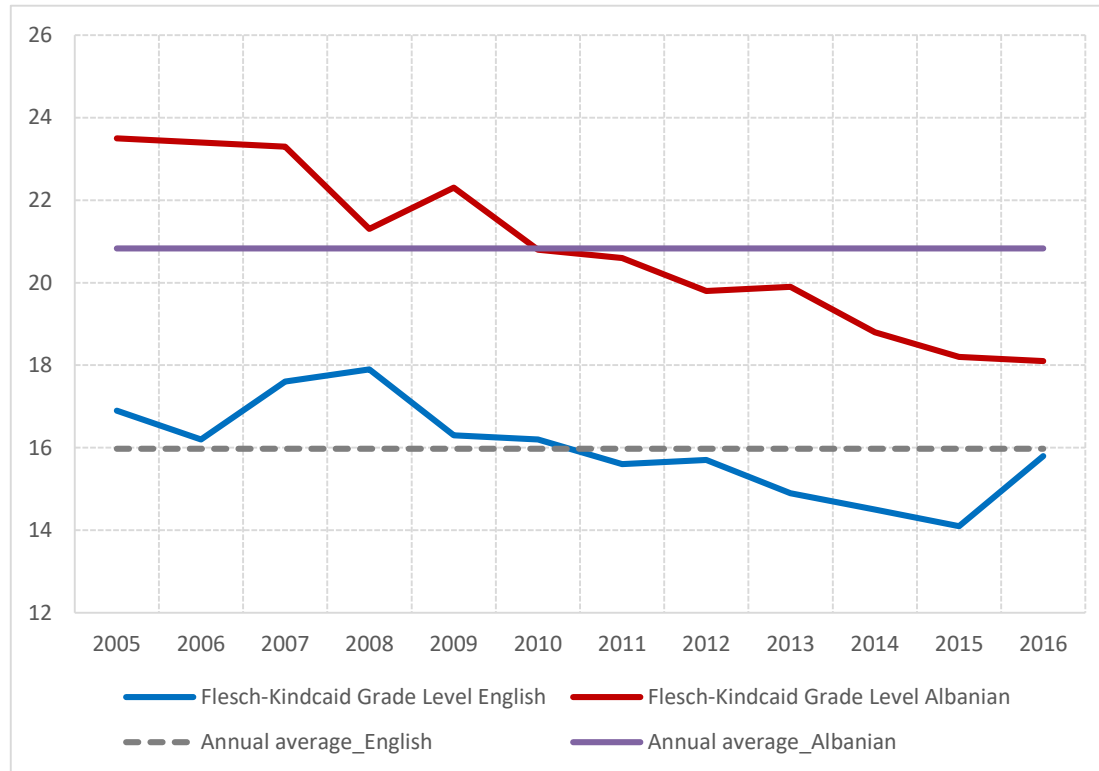
Source: Çeliku (2017),

Source: Bank of Albania

- Çeliku (2017) estimate a downward level of Flech-Kindcaid Grade level showing that the readability of BoA speeches has improved over time, but we need to do more.

- In addition, BoA communication strategy needs to account heterogeneity of inflation expectations and low level of financial literacy.
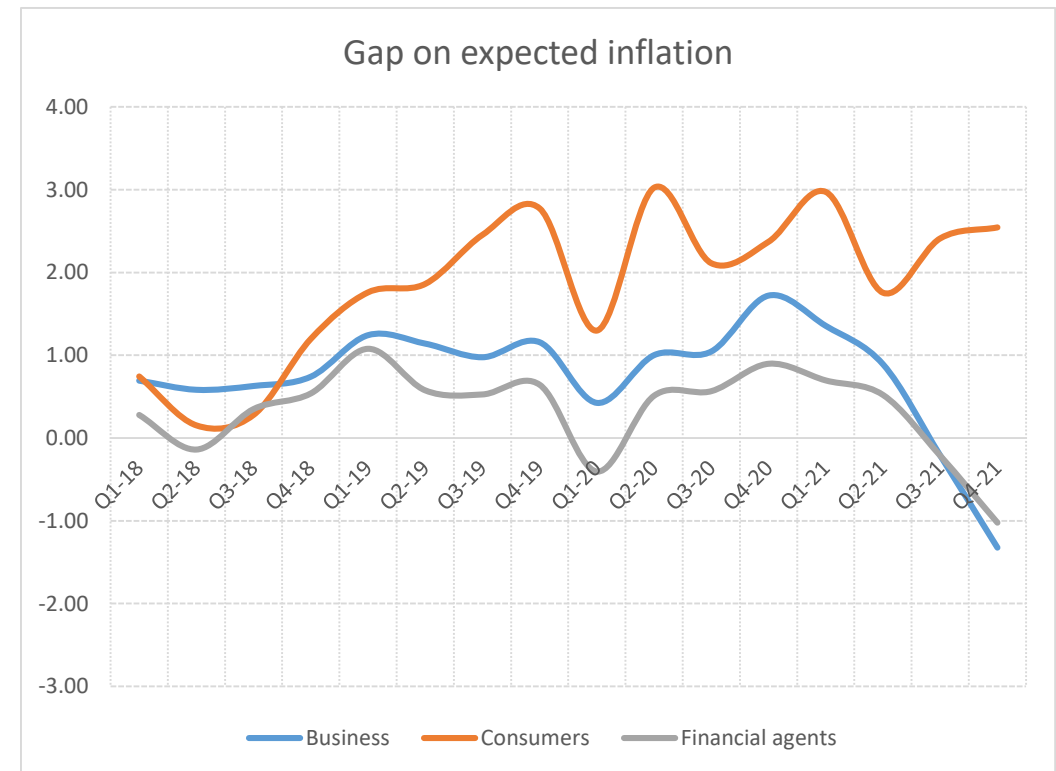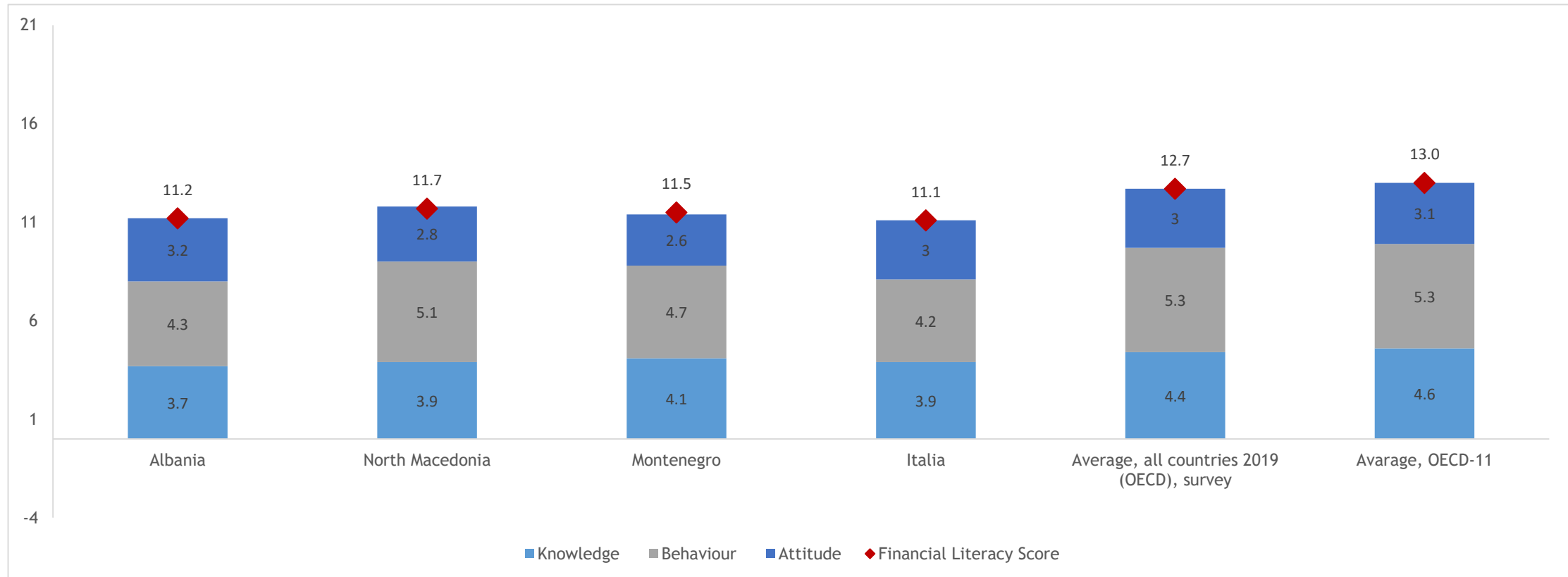
III. Financial literacy in Albania: Results of 2019 survey

Graph 6: Financial literacy score, 2019

Source: OECD(2020), Dushku (2022)

- Financial literacy index in Albania is 11.2 out 21 (max), lower that the average of the countries in 2019.
- Individuals in Albanian have only 53% financial knowledge, behavior and attitudes, comparing to average level of all countries, which is 61 %.

# III. Financial literacy in Albania: Results of 2019 survey:
Financial knowledge

Table 1: Percentage of adults that give correct answer

Financial knowledge questions	Albania	North Macedonia	Montenegro	Italy	Average of all countries OECD/INFE survey	Average of OECD-12
Time value of money, impact of inflation	25.90%	60.80%	61.40%	50.50%	65.50%	59.90%
Interest paid on a loan	83.70%	72.90%	87.40%	78.20%	87.40%	84.40%
Simple interest calculation	46.40%	44.80%	65.80%	59.40%	57.20%	57.10%
Understanding compound interest	10.50%	12.30%	13.90%	23.10%	28.80%	26.30%
Understanding risk and return	74.30%	68.60%	75.90%	64.70%	79.00%	77.10%
Understanding the definition of inflation	69.30%	78.20%	70.40%	65.10%	80.90%	78.00%
Understanding risk diversification	61.10%	55.10%	35.90%	51.30%	63.30%	58.90%

Source: OECD(2020), Dushku (2022)

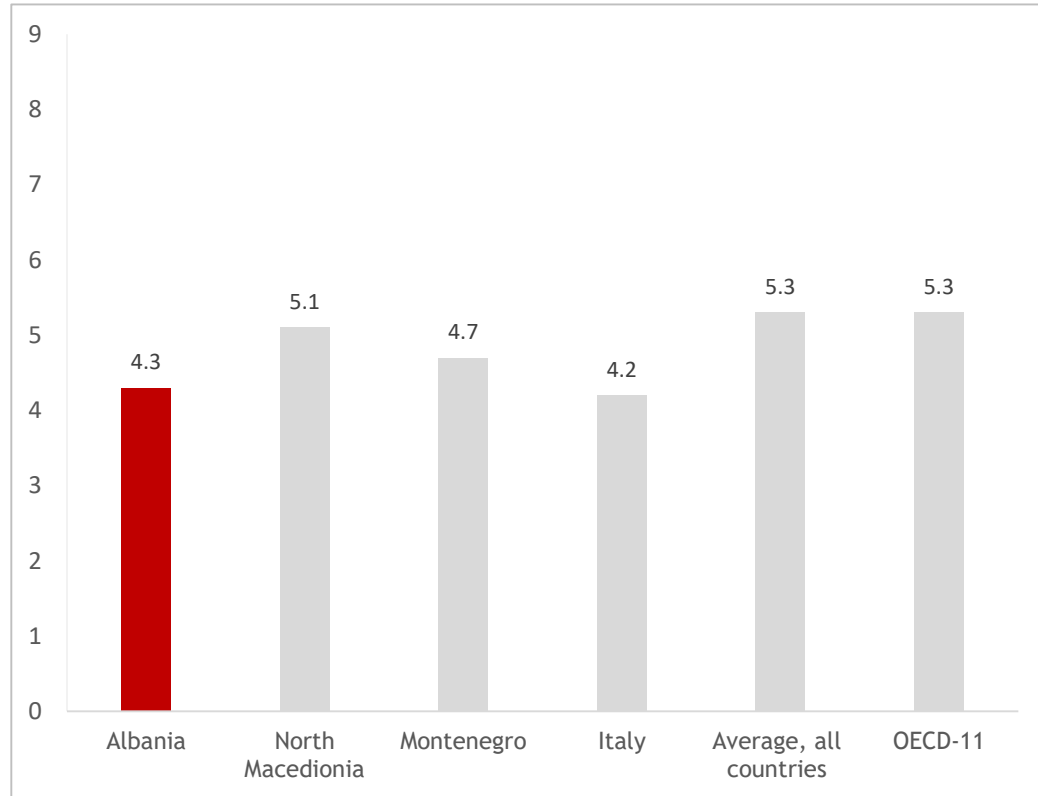Graph 7:Minimum target score on financial knowledge-Percentage of adults scoring 5 or more (out of 7)
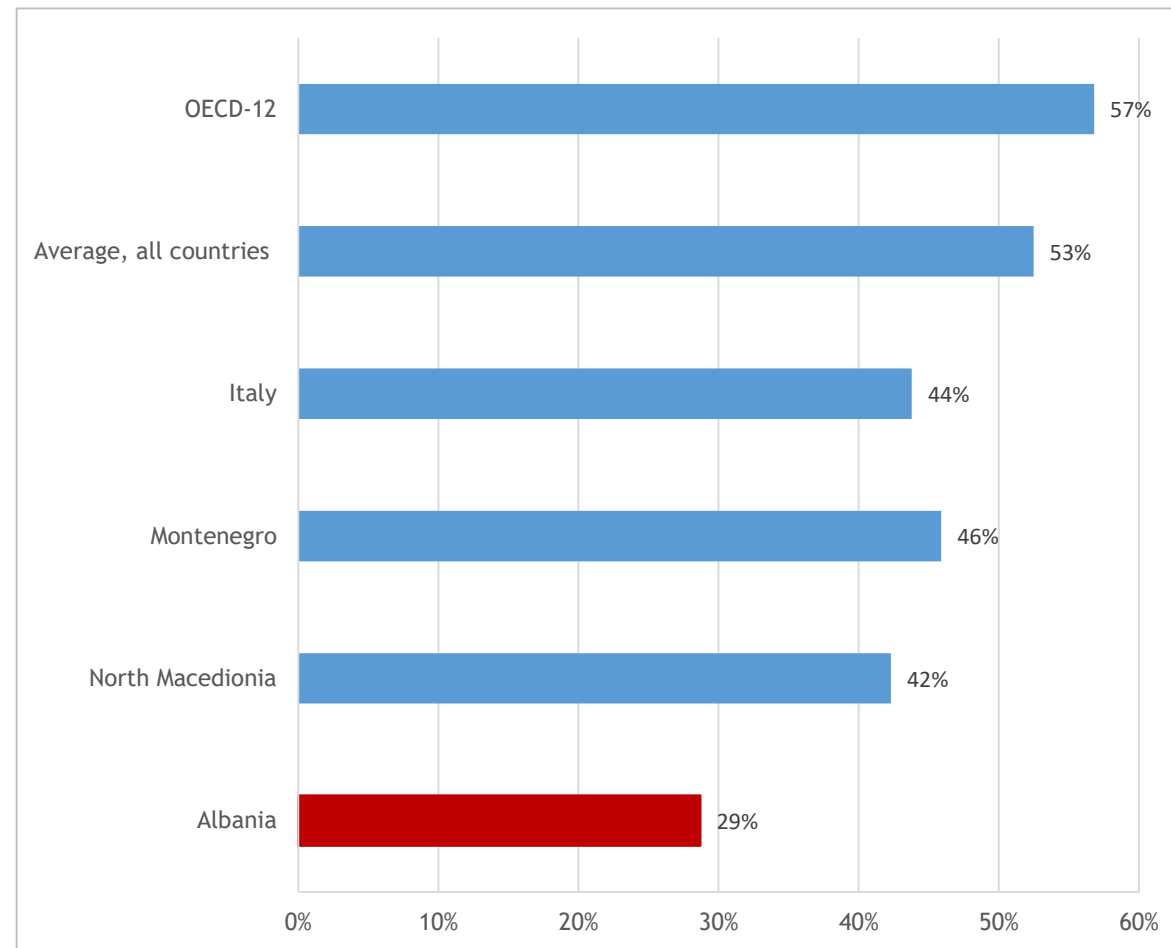
Source: OECD(2020), Dushku (2022)

- Lack of financial knowledge on the questions related to time value of Money, simple and compound interest calculation.
- 29% of individuals in Albania hold the minimum level of financial knowledge, low comparing with the average of OECD-12 and all countries (53-57 %)

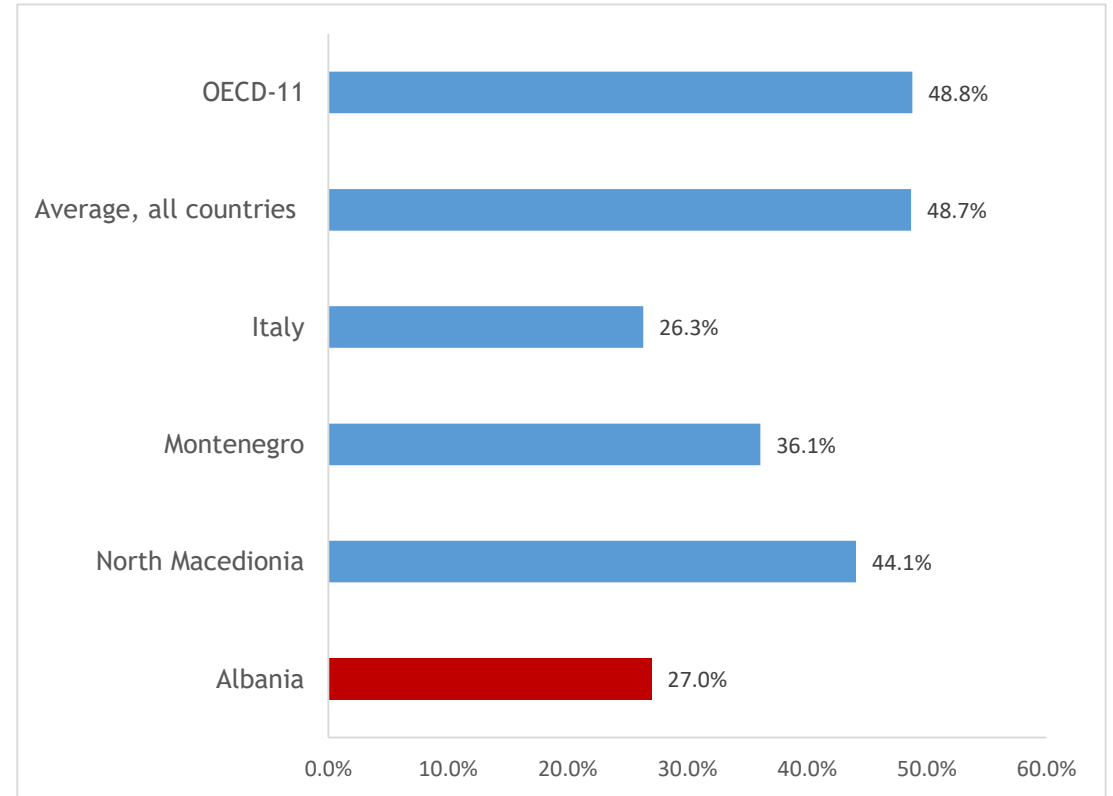10

III. Financial literacy in Albania: Results of 2019 survey

Financial behavior derived as a measure of prudent, long term, savings-oriented behaviors towards money.

Graph 8: Financial behavior score

Graph 9: Minimum target score on financial behavior: Percentage of responses who achieved 6 or above (out of 9)

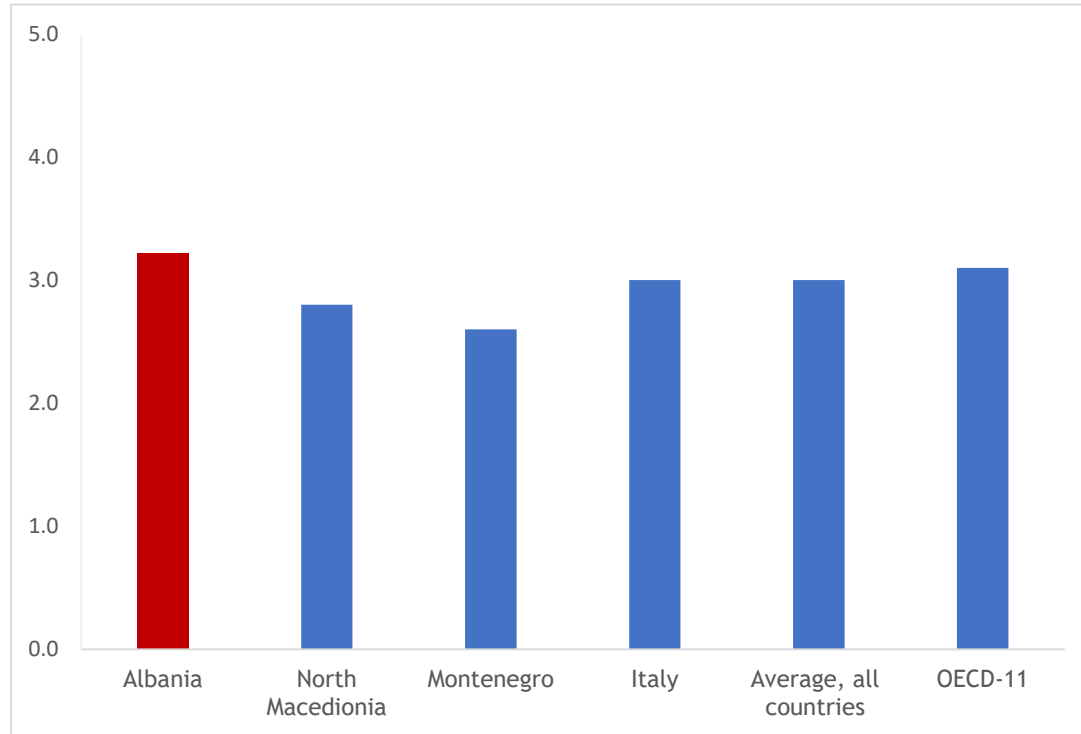Source: OECD(2020), Dushku (2022)

Source: OECD(2020), Dushku (2022)

- Financial behavior score in Albania is 4.3 (out of 9) lower than world or OECD-11 average
- Only 27 % of adults in Albania were able to achieve the minimum target score of 6 or more.

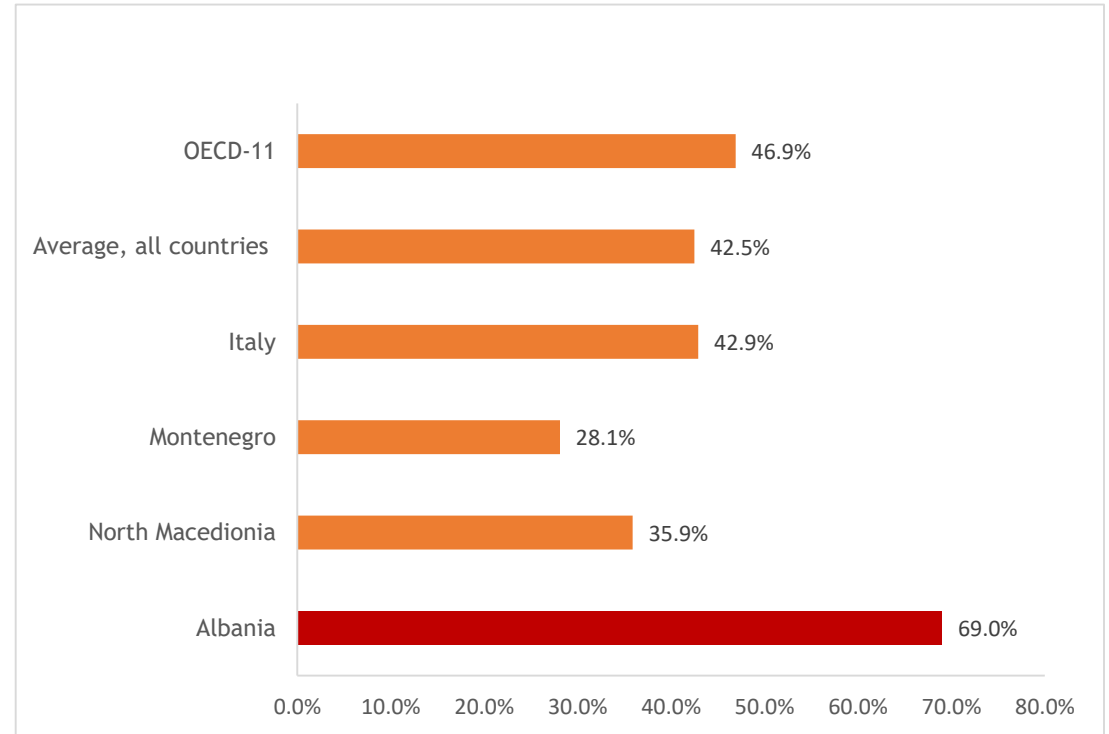# III. Financial literacy in Albania: Results of 2019 survey:

Financial attitude is based on the respondents' attitudes towards money and planning for the future

Graph 10: Financial attitude score

Source: OECD(2020), Dushku (2022)

Graph 11: Percentage of responses who give correct answer on financial attitude

Source: OECD(2020), Dushku (2022)

- Financial attitude score in Albania is 3.2 a little higher than average index of all countries.
- 70 % of adults in Albania were able to achieve the minimum target score of over 3 (out of 5).

III. Financial literacy in Albania: Results of 2019 survey:

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 individuals with minimum financial behavior	Percentage of individuals 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: Dushku (2022)

▪ Most vulnerable groups of individuals in terms of financial literacy are: women, youth, elderly, and individuals with low levels of education, unemployed, housewives, low-income individuals and individuals living in rural areas.

V. Final Remarks

- Communication approach of Bank of Albania has been improved over time but low level of financial literacy in Albania still remain an issue for the effectiveness of monetary policy.

- Furthermore, data show high heterogeneity between groups in terms of financial literacy (youngest, women, students, unemployed, poorest individuals have low level of financial score) and inflation expectations.

- Strengthening financial literacy is crucial for Bank of Albania communication strategy, in helping markets anticipate monetary policy and reducing market uncertainty.

- Bank of Albania with World Bank has started to work for implementing a Albania National Financial Education Strategy, where the aim is to increase financial literacy of Albanians, as result to improve their financial well-being and resilience to unexpected events.

Thank you!

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