# Anita Angelovska Bezhoska: Opening address - Fifth Meeting of the Regional Working Group for Financial Education of Southeastern Europe

Opening address by Ms Anita Angelovska Bezhoska, Governor of the National Bank of the Republic of North Macedonia, at the Fifth Meeting of the Regional Working Group for Financial Education of Southeastern Europe, Skopje, 27 September 2019.

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Distinguished representatives of the central banks,

Dear representatives of international institutions,

Dear guests, ladies and gentleman,

It is my great pleasure to give the opening address at the Fifth Meeting of the Regional Working Group for Financial Education of Southeastern Europe, hosted by our national bank. I am more than certain that joint fora, such as this one, are important venue for raising our awareness and knowledge on matters of mutual interest. And, there is no dilemma that financial education, as a spotlight of this working group, is an issue of mutual interest gaining prominence and importance among all stakeholders – central banks, regulators, financial services providers, consumers. We are all faced with rapidly evolving financial landscape, in which being knowledgeable means being capable of reaping the benefits and mitigating risks.

Now allow me to shed some light on a couple of important dimensions such as relevance of the financial literacy and the benefits it brings to the society, the specific circumstances that brought this issue to the fore in the last decade, the role played by the central banks in this segment, the current state and the challenges ahead for the region and our country.

**Why does financial literacy matter?** It is more than clear that the absence of understanding of the basic financial concepts erodes our capability to make proper and well-informed choices in terms of savings, investment, and borrowing. The costs of these choices are not confined only to individuals, but they can have systemic implications, eroding the overall financial stability. The translation of these misinformed decisions into systemic risks is exactly one of the main reasons why financial literacy became the mainstream in the past decade. The pre-crisis credit boom was supported by irrational exuberance and overconfidence of “never ending” rise in assets prices and low financing costs. The credit boom turned into credit bust, and the consequences of the “bubble – burst” are still with us. According to the latest **IMF map of weak spots**, heavily indebted households are still the main source of vulnerability in many systemically important advanced and emerging economies, and potential source of next financial crisis. Apparently, being financially literate and informed, can help in preventing, or at least mitigating the occurrence of such “weak spots”. To bring the issue closer to the regional context, let me remind us of the “episode” of excessive borrowing in Swiss francs that occurred in several countries in the region (Hungary, Croatia, Serbia, Poland), amidst low interest rates and assumed stability of the exchange rate. Hence, the last crisis clearly demonstrated that many agents are not fully aware of the consequences of their financial decisions.

**Financial literacy is becoming even more relevant given the last decade’s proliferation of the innovative services offered by new FinTech companies.** The tighter regulatory grip on traditional sources of finance, on the one hand, and promotion of new alternative sources of finance underpinned by technology, on the other hand, have been conducive to emergence of array of new financial products and services. This promotes higher financial inclusion, but also exposes consumers to new risks. The fact that FinTech solutions can be very complex make the task of risk identification and mitigation by service providers and/or regulators difficult. According to “Southeast Europe focus on Fintech and Innovation” the FinTech is the fastest growing IT branch and the two largest FinTech segments in the region, each comprising a quarter of all FinTech companies, are payments services and crowdfunding and peer-to-peer lending. Over the last couple of years, this trend has even led to discussions for risk of financial exclusion in case financial education does not keep pace with financial innovations. It asks for a greater vigilance, awareness and knowledge by all of the stakeholders on the possibilities it offers, but on the risks and threats as well.

**Going beyond the importance for the well-being of the individuals and the overall financial stability, financial literacy can play an important role in increasing the domestic savings, which is one of the key factors in speeding up the real convergence in the region.** Although in the recent period domestic savings has been picking up, still in most of the economies in the region it remains below the adequate levels needed to support stronger investments and increase the long-term potential of the economies. This is particularly relevant given the changing business models of the banks that imply a lower reliance on external sources of finance that may pose constraints for stronger credit support. Higher financial knowledge may also contribute to higher savings in capital market instruments and thus provide more balanced structure of corporate sector financing. Currently, the capital market depth in the region is hovering around 50% of GDP, being far below the EU average of around 200% of GDP.

**One of the Vienna Initiative reports highlights the importance of financial literacy for capital markets not just from the savings point of view (demand side), but also from the supply side.** According to their estimates, financial literacy level is one of the three key factors that explain the lower use of alternative sources of financing in the region in comparison with the EU average. This once again proves that the need for financial education regionwide is indeed widespread, which means necessity of a larger scope of our activities, including the corporate sector, especially the small and medium-sized enterprises.

**Furthermore, the financial literacy supports the ongoing process of raising financial inclusion, which is deemed to be an important dimension for having stronger, sustainable and more inclusive growth where the benefits are shared by the wider community.** The necessity for stronger financial knowledge and financial inclusion is undisputable. It is important for curbing risks, and unleashing the potential of the economies to grow.

**But, what is the current state of play? Data shows that notable gaps exists and there is a long way to go.** International institutions reports indicate that Southeast European countries are lagging behind developed economies in terms of financial literacy and inclusion, despite their efforts to actively address these issues. According to the **financial literacy surveys** pursuant to the standard methodology of the International Network on Financial Education at the OECD (INFE-OECD), on average 62% of the population of the OECD countries achieved the minimum target score for financial knowledge, while in Southeast European region, this percentage was lower and amounted to 40–55%. Despite the fact that the **level of financial inclusion**, measured as a percentage of adult population holding a bank account, has been increasing, in the SEE region it is still lower when compared to some of the more advanced countries in the wider CESEE region. The data from the Global Findex database of the World Bank, points to a percentage of 77% in 2017 for our country, lower than that compared to Croatia (86%), Slovenia (98%), Latvia (93%), Estonia (98%). According to the Standard & Poor’s Global Financial Literacy Survey, the average difference in the rank is around 20 places between the countries of the region and the EU-15 countries.

**What role as central banks do we have in elevating financial literacy?** Given the lessons learned from the crisis and the evolving financial innovations, in the last decade central banks have played an increasing role in the coordinated activities of the national policymakers tilted towards financial education and inclusion. Hence, central banks are active participants and promoters of the financial education process in almost all countries. The benefits are apparent: educated entities estimate risks and understand monetary policy stance better, the better the understanding of the economy and finances, the smoother the functioning of financial markets; the more efficient financial markets; the stronger monetary policy transmission and the credibility of the central bank.

**In this context, let me briefly touch upon several activities our institution has embarked on in this area.** Financial education and financial inclusion have formally become part of our agenda. We have widened the scope of educational activities, by wider portfolio of educational articles, more inclusive approach to financial education and closer cooperation with other regulators. The National Bank supported the organization of the European Money Quiz for teenagers with educational activities for the teaching staff, and has been proud of our high school students who won the second place in Europe. Very importantly, there is an ongoing process of preparation of the National Strategy for Financial Education and Inclusion, which we believe will pave the way for more educated and more inclusive society.

Dear guests,

This workshop proves that apart from national initiatives to elevate and promote financial knowledge, regional initiatives are on board as well. I think this approach provides synergy; employs joint resources and enables more efficient achievement of the vision that we all share.

I am pleased that we will formalize our commitment and readiness for joint action with the first Memorandum of Cooperation in the field of financial education and financial inclusion in Southeastern Europe. We must all strive to be strongly committed, not only to declare, but also to enable efficient implementation in practice. No doubts I have, that this will be the case.

At the end of my address, on behalf of all the stakeholders, I would like to express sincere gratitude to INFE-OECD and EFSE for their support all these years. It is unquestionable that many of the activities we have taken so far would have been difficult to carry out without their support. I truly hope that we justify the trust given to us.

The mission that we have is important, as by supporting financial literacy, we support provision of public good. In doing so, we must not forget that “Financial literacy is not an end in itself, but a step-by-step process. It begins in childhood and continues throughout a person’s life all the way to retirement” – George Karl. Therefore, we must be consistent, inclusive, committed and patient while playing our role in the financial education of our society.

I wish you a successful and fruitful meeting.

Thank you.