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FINANCIAL EDUCATION, AN IMPORTANT COMPONENT IN FINANCIAL DECISION MAKING

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Abstract

This article aims to define and describe the importance of financial awareness and education in the Albanian context. Financial culture nowadays is a necessity for everyone, considering not only the pace of economic, banking and technological development, but also the importance and weight that information has in today's global world. Such a culture helps consumers, producers and investors make sound financial decisions and at the same time the central bank more easily achieves its objective of achieving and maintaining price stability. Analysis of the demand for financial education highlight the need to increase understanding of basic financial concepts, including personal budgeting, investments, debt and financial risk management. The interaction between the level of financial awareness and the behavior of individuals has been observed through various surveys and market studies. Included studies also examine the effectiveness of various teaching methods in financial education, including school curricula, worker training programs, and civil society initiatives. The results of the article provide a deeper understanding of the positive impact of financial education on the financial behavior of individuals and communities. In conclusion, this research sets out recommendations for improving financial education strategies and policies, emphasizing the need for a joint approach by educational institutions, the private sector and the government. Progress in this direction will help increase the financial stability of individuals and society in general.

Keywords: Financial Culture, Financial Risk, Economic-Financial Education, Technological Development



INTRODUCTION

Financial education can be defined as the process by which financial consumers/investors improve their knowledge about financial products, concepts and risks, through information, training, and/or objective advice, and gain skills and confidence about risks and opportunities. This expertise also allows you to understand more complex topics such as taxes, stocks and retirement planning. Ultimately, financial literacy will enable one to make better financial decisions and understand how the financial world works. Knowledge of income, tax and pension obligations, disposable income, expenses, their priorities, savings, clear short-term and long-term goals, loans and financial markets is essential. Knowledge of concepts such as interest rate, compound interest rate (recapitalization), inflation and deflation affect our financial life and consequently our level of well-being. Financial education begins within the family. Parents should teach their children the basics of personal finance, such as creating and following a budget, spending wisely, and saving money for hard times. Financial education enables people to make informed choices, shows where to turn for help, and undertake other effective activities to improve their financial well-being. In this way, financial education offers more than the provision of financial information and advice, which must be regulated, as is often the case for the protection of financial clients (consumers).

Financial education is usually associated with the world of investments, but the broader use of the term is becoming more and more important in our daily lives. Regardless of a person's status, income, as well as aspects such as job, status, income, age or any other possible demographic, financial literacy is becoming essential for the average family trying to survive or even perhaps decide how to balance her budget, buy a new home, take care of daily needs, provide funding for their children's education and most importantly, budget and plan for the income he will receive after graduation pension. All this situation will have to be seen in a broader perspective, and as a holistic approach to long-term planning. Not just in an individual, or short-term, "how much can I save over a five-year time period" aspect, but financial education should be part of our families, to take care of essential needs, today and tomorrow. People have always been responsible for managing their finances on a day-to-day basis, such as covering the costs of insurance expenses for example, vacations or buying a piece of jewellery, but recent developments in the financial world have made education and awareness increasingly important. We have to admit that the financial markets are not what they used to be. Contrary to what uninformed investors may often think, markets do not move in a straight line and have become increasingly sophisticated over time. Investors are faced with a variety of products and platforms on which to base their investment decision, and the range of choices is quite wide. This makes the need for financial education essential as it will ultimately affect the formation of

a line of thought for the investor, who begins to more clearly calculate the responsibilities and risks when making a financial decision, without avoiding the inevitable impact on the way of the individual's life.

Financial Education in Albania

Increasing interest in personal finance is already on the agenda of many governments, including the Albanian one, with a focus on understanding the basic concepts of finance, which enables individuals to have more access to financial markets and better manage their personal finances. "The only essential difference between financial success and failure is how well you manage your money. It's simple: to generate more money, we must know how to manage it", says T. Harv Eker, writer. The main problem today, on a global scale, and especially in Albania, is the lack of financial knowledge, which conditions, among others, the degree of financial inclusion and interaction with financial institutions. It is becoming more and more difficult to make the right decisions about savings, investments in Stock Markets or Investment Funds, loans, pension plans or deposits that would enable us to improve our financial position in the conditions of increased risks and sophistication of products/services. financial. The topic of financial education is often repeated recently, perhaps to fill a deep vacuum in the lack of knowledge about financial markets in Albania, especially non-banking ones. Investment funds, private pension funds, the Stock Exchange, the Secondary Market of Treasury Bills and Government Bonds have been at the center of the Financial Supervision Authority's strategy for financial education. AMF and the Bank of Albania have implemented concrete projects in terms of financial education. The educational programs of the Bank of Albania focus on two main objectives:

1. presentation to the public of the institution of the central bank, its role and functions, as well as;
2. cultivating and strengthening a financial culture in Albanian society.

To achieve these objectives, the Bank of Albania cooperates with national and international institutions to establish a comprehensive financial education platform, adapted to the needs of the local education system. The goal of the financial education strategy will be to get to know the world of finance and institutions such as the central bank and commercial banks and to get to know the different financial products that are offered today, bringing benefits if we use them correctly. The financial education of young people is the main objective of the Bank of Albania and educational institutions. About a decade ago, the OECD took the initiative for financial education, for raising the awareness of institutions and individuals about the need for financial knowledge, building for this purpose an annual campaign like "Money Week" that is

organized every spring in about 176 countries. the world and in Albania. Financial education is important, but it is also neglected, so we should pay more attention to it because it is in the interest of all stakeholders.

Financial education gives people the knowledge and confidence to make decisions that are in their best interest, so it is time for Financial Education to become a priority in Albania as well.

The Importance of Financial Education

Financial education is an important part of personal development and it is an aspect of life that directly affects the well-being and stability of the individual and the family. Throughout the history of mankind, money was born and developed as a means of association, but never as necessary in our lives as it is today. Today, existence, well-being, career, striving for progressivity, competition and the need to be able to move forward at any moment are directly related to money management, knowledge of the use of personal finances, the risks that accompany our lives financial. The importance of financial education includes several elements:

1. **Budget Management:** Financial education includes the ability to design and manage a budget. A good budget helps people plan expenses and keep track of the relationship between income and expenses.
2. **Investments:** Knowing the different forms of investments and understanding them is essential for wealth growth. Financial education helps you understand the risks and benefits of different investments, helping you make well-informed decisions.
3. **Debt Control:** Financial education includes debt management. It is important to understand how to use credit and avoid excessive debt while maintaining control of your personal finances.
4. **Retirement Planning:** Planning for the future is an important part of financial literacy. Understanding the different options for pension payments and investing for the future helps you ensure financial stability after retirement.
5. **Ability to Take Care of Unexpected Situations:** Financial education helps you prepare for unexpected financial situations, such as job loss, unexpected illness, or other events that may affect your income.
6. **Understanding the Financial Market:** Knowledge of the financial market, including concepts such as stocks, bonds, mutual funds, and currency markets, is an important part of financial education.

7. **Business Finance (if applicable):** For those involved in business, financial literacy includes understanding the financial well-being of a business and managing financial resources in an efficient manner.

Financial education can provide a solid foundation for a successful financial life. Financial organizations and institutions often offer various programs and resources to help individuals and communities develop their financial skills. With proper personal finance management, we understand how to receive, manage and invest our money. In other words, financial education gives us the possibility of achieving economic stability.

So, to prevent and avoid situations of economic stress, such as uncontrolled debt, it is important to know the basic concepts and know how to use them in practice.

Behavior Change Starts in Schools

Individual behavior change can be achieved through the integration of financial and insurance education components into the formal school curriculum, as it not only facilitates change by developing information, financial skills and responsibility from an early age, but also ensures and reaching a wider audience of people. In fact, all those who think they are moving with the times without Financial Education are wrong. Financial Education is as important to their present and future as the convenience offered by other technological innovations. In today's times, where everything revolves around money and finances, Financial Education is essential, because financial education encompasses every aspect of young people's lives.

Financial education aims at sharing information and knowledge, introducing basic skills as well as increasing their awareness and self-confidence to understand financial products and concepts.

In recent years, the Association of Insurers of Albania as well as private and public financial institutions have held open lectures in various universities with the aim of bringing the new generation closer to financial and economic education.

The Connection Among Innovation, Digitalization and Financial Education

Digitalization and access to technology has already become a main and cross-sectoral objective not only in our country, but also in a wider European or world level, especially after the Covid-19 pandemic. The positive developments noted in the financial sector in recent years in terms of digitization and innovation in this sector serve not only its development, but also the economy as a whole.

The Ministry of Finance has applied, in cooperation with the banking sector, some solutions that are innovative, which go towards the application of fintech and serve not only the

sector, but also the citizens. We mean here the application of a platform that connected our securities purchase system with one of the 3 main platforms in Europe that created access to international stock exchanges in cooperation with banks. The Ministry of Finance together with a second-tier bank authorized a platform for online trading of government securities, which is one of the key elements of the liquidity of the government paper market. It was made possible that investment funds licensed in the EU can be distributed or traded in Albania simply with a license recognition, that is, without being licensed from the beginning. So, innovation, digitization and the inclusion of the sector serve not only the financial market, but also the economy and, more broadly, the deepening of the market. A structured approach is necessary, together with financial sector actors and regulatory institutions, to have a strategy in financial inclusion as well. This is because, for the reduction of cash, there must also be an increase in financial inclusion.

There are models of advancement and financial inclusion of citizens in the banking sector, emphasizing here also financial education, which in itself, if done properly, is an important helper and component of wider inclusion through the use of fintech.

CHALLENGES

In order to progress further towards the European perspective, financial and economic education plays an important role towards overcoming the challenges, in addition to the continuation of structural reforms. Financial education in Albania is relatively low, so there is a lack of technological investments to enable maximum security in banks. The challenges that the future holds are influenced by demographic developments, education and financial inclusion, climate and environmental developments, green finance, as well as the rapid digitization of finance and money, which are considered important elements of sustainable development. Financial inclusion and financial education constitute an important objective for the present and the future. In the context of the progress towards the European Union, the importance of having a complete economic and financial integration in Albania should be emphasized. Also, it is necessary to make greater efforts by all parties involved to contribute to the financial education of the people.

Only people with financial education can properly plan and manage their family budget, work on savings and make appropriate decisions about the best services – when choosing bank loans, and when they prefer non-bank services.

In conclusion, we can say that cooperation in the fields of monetary policy, banking supervision, financial stability, payment systems, etc. can bring significant benefits for strengthening financial stability in the country.

CONCLUSIONS

The main problem today, on a global scale, but especially in Albania, is the lack of financial knowledge, which conditions, among other things, the degree of financial inclusion and interaction with financial institutions. In order to draw a conclusion on financial education in Albania, it is important to examine some key elements:

1. Awareness and Level of Financial Education:

The level of financial awareness and education in Albania may still be at low levels. To improve this, it is important to develop educational programs and awareness campaigns that involve all age groups and categories of society.

2. Access to Financial Services:

Another key aspect is access to financial services. If a large part of the population does not have access to bank accounts, loans or other financial instruments, it is difficult to build sustainable financial literacy.

3. Based on Technology and Innovation:

Using technology and innovation can be a powerful tool to reach wider audiences and improve the way financial education is delivered.

4. Impact of Socio-Economic Factors:

Socio-economic factors, such as income levels and social structure, have an impact on how an individual will use financial knowledge. It is important to consider these influences and design strategies that address the specific needs of these groups.

5. The Role of Institutions and the Private Sector:

Financial institutions and the private sector have an important role in the development of financial education. The progress of these sectors in improving transparency and providing sustainable services can contribute to increasing financial knowledge in the population.

6. Impact of the Pandemic and Unannounced Events:

Unexpected events, such as the COVID-19 pandemic, have been able to affect the financial stability of individuals. Financial literacy strategies must include and prepare people for such unexpected situations.

The rapid development and growth of the FINTECH and non-banking services industry reflects their great need in Albanian society.

These are institutions that provide financial inclusion, digitizing, simplifying and accelerating customer service and lending in local markets, with the aim of increasing access, inclusion and financial convenience. The creation of a new financial service in the market deals with consumer borrowing in the easiest and fastest way possible.

In conclusion, to improve financial education in Albania, it is important to use a combination of traditional education strategies and innovation, addressing socio-economic factors in parallel and focusing efforts on access to financial services and general awareness of the population.

RECOMMENDATIONS

Financial education is an important aspect for the development of an economically stable society. Here are some recommendations on financial education in Albania:

- **Public Awareness campaign:**

Government and non-profit organizations can organize public awareness campaigns to encourage adults and youth to actively participate in financial education.

- **Cooperation Between the Financial and Educational Sectors:**

Financial institutions can partner with educational institutions to provide additional financial education programs and resources.

- **Use of Technology:**

Digital platforms and mobile apps can be used to provide personalized and easy-to-access learning in real time.

- **Trainings for Teachers:**

Financial literacy training for teachers is important to ensure that they have sufficient knowledge to teach students.

- **Advanced Financial Education Programs:**

Promoting financial education programs that are tailored to local economic realities and that provide advanced knowledge of investments, electronic payments, and debt management.

- **Help with Debt Management:**

Providing debt management resources and advice can help citizens learn how to maintain a healthy financial balance and avoid potential problems.

- **Partnership with Businesses and Government Organizations:**

Working closely with businesses and government agencies can help create effective financial education programs and secure the necessary resources.

These are just some of the steps that can be taken to promote financial education in Albania. It is important that all actors involved work together to improve financial awareness at the individual and societal level. Advancing financial education in Albania requires a comprehensive and research-driven approach. In the context of Albania, there is a need for further research and studies to enhance the effectiveness of financial education initiatives. This

brief discussion outlines the key areas that researchers should focus on for the advancement of financial education in the country, that will aid policymakers, educators, and stakeholders in developing and implementing effective financial education initiatives tailored to the specific needs of the Albanian population.

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