



TÜRKİYE CUMHURİYET
MERKEZ BANKASI

BULLETIN

December 2017

ISSUE 45

Financial Literacy: Individual and Social Benefits

What is financial literacy? What is the importance of financial literacy for consumers and the financial system? What activities do central banks, and the CBRT in particular, carry out to increase financial literacy? (Page 2)

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Inflation (January 2018)

10.35%

CBRT Reserves (9 February 2018)

Gross FX Reserves

USD **90.9** Billion

Gold

USD **24.9** Billion

CBRT Policy Rates (18 January 2018)

Late Liquidity Window Overnight Borrowing Rate

0%

Overnight Borrowing Rate

7.25%

One-Week Repo Rate

8.00%

Overnight Marginal Funding Rate

9.25%

Late Liquidity Window Overnight Lending Rate

12.75%

Financial Literacy: Individual and Social Benefits

Throughout their lives, consumers have to make decisions on a number of financial matters by choosing among alternatives. Some of these decisions that may affect the individuals' financial balances and living standards in the short and/or long term are: how to achieve a balance of income and expenditures, how to distribute their income among consumption, saving or investment, how to shape investment decisions, how to make use of savings, when and where to borrow, and how to manage financial risks. Decision-makers are faced with even more options in financial markets as their financial awareness and access to financial products and services increase. To be able to make accurate financial decisions, they need to be more competent in terms of knowledge, skill and analysis. In other words, they need to have a higher level of financial literacy.

What Is Financial Literacy?

Well, what does financial literacy refer to? Various financial literacy definitions highlight two main components. The first one is that consumers should have the knowledge and skill to effectively manage their financial resources to achieve and maintain financial welfare. The second one underlines that they should have the ability, motivation and self-confidence to use this knowledge and skill. Today, the broadening range of financial products and services is increasing the scope and variety of risks as much as it is increasing the opportunities offered by financial markets. Financial literacy steps in at this stage and enhances the capacity of individuals to make the most of the opportunities in this structure and protect themselves from risks.

Why Is Financial Literacy Important?

An increased level of financial literacy is critical for consumers to benefit from the advantages that the financial system offers them and enhance their welfare as well as to protect themselves from market flaws and unfair practices that may emerge in the financial system. It is also important for the stability of the financial system and for ensuring financial inclusion, which means that consumers can adequately access and use financial products and services under favorable conditions.

First of all, academic studies on financial literacy demonstrate that people with a high level of financial literacy make more accurate financial decisions and implement these decisions more effectively (Hall, (2008); Hastings et al., (2012); Hilgert and Hogarth (2003)). For example, results of surveys conducted to measure the financial knowledge, behaviors and attitudes of consumers reveal that consumers with a low level of financial literacy more frequently go into default on their invoice and other payments whereas financial literacy improves consumer awareness of the obligation to make payments on time.

Secondly, consumers with a high level of financial literacy who are able to clearly analyze the outcomes of their decisions can set their rights and obligations more accurately, make appropriate decisions to safeguard their interests in the face of information asymmetry and unfair practices of financial service providers, and avoid possible misguidance.

Increasing financial literacy helps to include in the system those consumers who do not have the adequate knowledge, skill and experience to access financial products and services tailored to their needs or who do not have the self-confidence to enter the financial system or make financial decisions.

In terms of portfolio management, in an environment where consumers have to choose among a greater variety of financial products, financially literate consumers create their portfolios with risk diversification in mind (Jappeli and Padula (2011), Lusardi and Mitchell (2011)).

Consumers with a high level of financial literacy can also more effectively manage risks due to their knowledge and skills regarding financial products, services and concepts. In addition, financial literacy increases consumers' propensity to save and improves their saving discipline (Goel and Khanna, 2013; Hastings et al., 2012; Jappelli and Padula, 2011; Lewis and Messy, 2012; OECD, 2005 and 2009; CBRT, 2011).

Financially literate consumers are relatively more informed about savings instruments. This increases their propensity to save and enables them to make more efficient use of their savings, increasing both the number of savers and the amount of savings.

Lastly, financial literacy also has very positive effects on financial planning for retirement (Lusardi and Mitchell, 2011; OECD, 2005). Financially literate consumers plan their future and save more for the retirement years. On the other hand, they earn higher yields from their savings, are able to manage money better in their retirement, attach importance to risk diversification in their retirement-oriented investments, and can avoid high amounts of charges and fees in the retirement planning systems.

Importance of Financial Literacy for the Financial System

A financial system is a structure which brings together economic units that provide or need funds, institutions that regulate the fund flow, and financial instruments under a regulatory legal and administrative framework (CBRT, 2015a, p.2).

To achieve and maintain financial stability, the financial system should be able to efficiently and smoothly transfer resources between savers and investors, financial risks should be assessed and priced accurately and should also be well-managed, and the financial system should comfortably absorb financial and economic shocks (Morgan and Pontines, 2014, p.4).

Consumers with a high level of financial literacy are able to shape the financial system according to their needs by accurately comparing financial products and services and by negotiating more effectively. This enables them to create pressure on financial service providers as well as regulatory and supervisory institutions for the smooth functioning and the transparency of the financial system. Moreover, having adequate information about the financial products and services they have chosen, these people also assume an implicit supervisory role in the financial markets and serve to alleviate the burden on regulatory and supervisory institutions responsible for the protection of financial consumers (OECD, 2005, p.35).

In this context, financial literacy is believed to strengthen the foundation of financial stability via enhancing the discipline and transparency in financial markets, increasing the demand for financial products and services, and ensuring conscious use of these products and services (Hall, 2008, p.16; OECD, 2009, p.3; Widdowson and Hailwood, 2007, p.40).

Numerous studies analyzing the effects of financial literacy on financial crises suggest that improved financial knowledge, skill and awareness help contain the spread of financial crises and reduce their effects, and even catalyze the exit from the crisis (OECD, 2005; OECD, 2009). Additionally, as consumers with a high level of financial literacy are well-informed about the market conditions and dynamics, they may avoid overreacting in the face of financial market fluctuations and thus contribute to reducing volatility.

An increase in financial literacy improves the financial well-being of consumers and also promotes the integrity, quality, innovativeness, competitiveness and functionality of financial markets. This, in turn, favorably affects the overall economy.



Financial Literacy, CBRT and *Economics for All*

The Central Bank of Turkey has started an initiative called *Economics for All* to contribute to financial literacy and financial education and to explain economics and monetary policy to all sections of society. Departing from the idea that financial education should start at an early age, just like math and language lessons, the CBRT is reaching out to explain concepts such as money, inflation, and central banking to different age and social groups starting with primary school students.

The first pillar of these efforts was visits to primary schools. During the pilot scheme, a team of 60 central bankers, who received a teacher training beforehand, visited schools in Ankara. The team visited eight primary schools in Altındağ, Çankaya, Keçiören and Yenimahalle districts of Ankara and explained money, inflation and central banking to 2,000 students.

Another target group for *Economics for All* is university students. In this half-a-day program, the CBRT welcomes university students at the Head Office in Ankara where CBRT staff give presentations on topics such as the monetary policy framework and central banking, and information is given about career opportunities at the Bank. The Informative Programs for University Students are carried out in spring and winter. 1,790 students from 34 universities participated in these programs in 2017.

A microsite for *Economics for All* was launched in February 2018 featuring content and resources for primary, secondary and high-school students. The site also contains multimedia content aimed at financial training for the general public and is accessible at <http://herkesicin.tcmb.gov.tr>.



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In a Nutshell...



NEW ELECTRONIC DATA DELIVERY SYSTEM (EDDS) LAUNCHES

The EDDS, which was first introduced in 1993, underwent several technological updates and the latest version was launched on 20 October 2017.

The new EDDS contains 16 titles, 315 data sets and approximately 25,000 time series. While designing the new EDDS, the existing services were kept and some new features were added in response to the results of a survey of users.

The new EDDS allows users to derive dynamic reports and charts, to contribute to the reporting process during dynamic reporting, and to make visual and content changes on tables and charts as they desire.

The services offered by the new EDDS are:

8 formula options for each time series

Dynamic table and chart display

Flexible format and frequency in data

Customized opening page for the user

Report pages (dashboards) that can be customized, saved and shared

Dynamic map display for data groups entailing location

"Recently Updated" and "Frequently Used" Series

Fast access to data via subscription

Help videos explaining how to use

Special help documents for the visually and hearing impaired

Unlimited access with mobile application (under construction)

REST Web Service

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Central Bank of the Republic of Turkey Communications and Foreign Relations Department

Anafartalar Mah. İstiklal Cad.
No: 10 06050 Ulus Altındağ
Ankara

A complimentary publication from the CBRT.

ISSUE 45 / December 2017

Published quarterly by the Central Bank of the Republic of Turkey

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