The financial fragility of European households in the time of COVID-19 and the role of financial education and literacy

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September 30, 2020
To get started

A number:

1/3
What this number is

\[
\frac{1}{3}
\]

- People who know the basics of personal finance
- This is true both in the US and around the world
- It is also related to knowledge about risk
Financial Literacy Across the Globe (S&P Global Finlit Survey)

% of financially literate adults

Only 1 in 3 adults worldwide have basic financial literacy
Inflation and simple interest/numeracy is what people know most across countries.

Risk diversification is what people know the least.
Financial fragility: Can people handle shocks?

How confident are you that you could come up with $2,000 if an unexpected need arose within the next month?

• I am certain I could come up with the full $2,000.
• I could probably come up with $2,000.
• I could probably not come up with $2,000.
• I am certain I could not come up with $2,000.
• Don’t know.
• Prefer not to say.

From Lusardi and Tufano, BPEA, 2011
Measure of financial fragility

How confident are you that you could come up with $2,000 if an unexpected need arose within the next month?

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• I am certain I could not come up with $2,000.
• Don’t know.
• Prefer not to say.

People with these responses are classified as financially fragile

From Lusardi and Tufano, BPEA, 2011
### Financial Fragility in the United States – 2018 National Financial Capability Study

| Fragility |  
| --- | --- |  
| **Probably or certainly could not come up with $2,000 in a month** |  
| US Adults | 31% |  

Who has basic financial literacy is much less likely to be financially fragile.
The financial fragility of European households in the time of COVID-19

Maria Demertzis, Marta Domínguez-Jiménez and Annamaria Lusardi

Executive summary

1. The concept of household financial fragility emerged in the United States after the 2007-2008 financial crisis. It grew out of the need to understand whether household lack of capacity to face shocks could itself become a source of financial instability, in addition to risks to the stability of banks and the greater financial system. The concept goes beyond assessing the level of assets and encompasses the state of household balance sheets, including indebtedness. It relies also on individual perceptions of the ability to rely on families and friends and other methods to deal with shocks, through such aspects are less easy to measure and rely frequently on self-assessments.

2. In the wake of COVID-19, we ask how well-prepared households were in the European Union (including the United Kingdom) to handle an unexpected expense. Two years before the pandemic hit, a substantial share of EU households reported that they would be unable to handle unexpected expenses. In some EU countries, many households had savings equivalent to just a few weeks of basic consumption.

3. We find that one in three EU households is unable to meet an unexpected shock during regular times, let alone during a pandemic. COVID-19-related support measures put in place across the EU were intended to provide economic help to those households whose members have lost jobs or face a severe reduction in income. However, in a number of countries where one in two households was already fragile - typically countries that are already economically weaker - state help is likely to be smaller and shorter-lived. Policies that increase financial resilience in structural ways will become necessary in the future.
In Figure 1, we plot the share of households that self-report being unable to deal with an unexpected required expense. The data refers to 2018, a period of growth (albeit moderate) among European countries but, importantly for this exercise, not a period of specific financial stress.

Figure 1: Household inability to meet an unexpected required expense, all households, percentage shares, 2018

Source: Eurostat, EU-SILC. Notes: EU27 displays the average of all EU member states after January 2020 [those exhibited except the UK]. EA19 is the euro-area average.
Financial Fragility in Europe: Single parent households (cont.)

Figure 4: Household inability to meet an unexpected expense, single person household with dependent children, percentage shares, 2018

Source: Eurostat, EU-SILC.
Building a new ecosystem

We need many components

• Financial literacy is an essential one
• It is the foundation (like water)
• We need to refocus after the crisis
Advice for public policy

Building a financial resilient society

• Need to focus on well-being
• Add financial literacy among indicators of well-being
• Toward a more inclusive society
Policy work: National strategies for financial literacy

More than 70 countries have done or are doing a national strategy for financial literacy
In July 2017, I was appointed by Italy’s Minister of Economy and Finance as director of the new Financial Education Committee.

The Committee is in charge of designing the national strategy and implementation program for financial literacy.

Follow our work on www.Quellocheconta.gov.it
Concluding remarks

Financial literacy is like **reading** and **writing**: it is an essential skill to thrive in the 21st century

- It is very important to be financially literate as early as possible
- Financial literacy is a stepping stone for financial resilience and financial well-being
Looking ahead

Short definition of financial literacy: A vision for the future

The question is: Which future do we want to build?
Financial literacy and financial resilience: Evidence from around the world

Leora Kippen | Annamaria Lusardi

Abstract
We examine financial literacy and resilience by looking at a broad range of cross-country evidence from around the world on household financial decision-making, including knowledge of interest rates, government bond yields, inflation, and risk diversification. We find that, while some countries have financial literacy levels comparable to those in the developed world, others have much lower levels of financial literacy, which is costly both for individuals and for the broader economy. Financial literacy is associated with better outcomes, including lower debt levels, higher savings rates, and lower risk of financial distress. However, there is significant variation in financial literacy across countries and regions, with some countries having much higher levels of financial literacy than others. This variation is likely to have significant implications for economic outcomes, including economic growth, financial stability, and social well-being.
Thank you!
Thank you!