Differences in Use of Credit Products Between the Old and New Member States of the European Union

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1 Introduction

Financial behaviour of consumers are related not only to the amount of earned income (Potocki 2018), but result primarily from financial literacy, which includes financial knowledge, behaviour and attitude (OECD 2016: 8). Financial knowledge alone is not sufficient to make rational financial decisions. The consumer's ability to use knowledge in the effective management of financial resources is necessary in order to ensure financial well-being (OICU-IOSCO 2014: 5–6; NFCS 2015:1). Therefore, financial literacy, i.e., a combination of knowledge, attitudes and behavior related to financial decisions made, leads to the financial well-being of households (Musiał and Świecka 2016; Lusardi and Mitchell 2011; Maciejasz-Świątkiewicz 2015). Financial literacy is crucial not only in terms of involving as many consumers as possible in using basic banking products. It allows a rational selection of products offered by financial institutions. Furthermore, the relationship between the use of financial products and financial literacy is two-way. Less interest shown in using financial products in some EU countries proves weaker financial literacy among their inhabitants. However, the lack or very limited use of financial products makes it difficult for such communities to practically develop financial literacy through their personal experiences. Simpson and Buckland (2009), Lusardi and Mitchell (2006), Lusardi et al. (2010) among others, indicated the links between financial literacy, and financial exclusion and credit constraint in their research. The conducted research (Musiał and Świecka 2016; OECD 2016: 8; Frączek et al. 2017) indicates a low level of financial knowledge among young people. This is an extremely worrying phenomenon because decisions made in

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young adulthood at the beginning of professional activity, often affect the financial situation in later life, including the risk of a debt spiral.

Adequate financial knowledge of young people affects not only the rational management of current income, but also the awareness of the need to accumulate savings throughout the entire period of professional activity, which is the subject of research by Lusardi and Mitchell (2011). This is important when there is a need to collect funds outside of mandatory retirement systems in order to have sufficient funds after retirement. Particular attention should be paid to young adults and their financial education. As indicated (Friedline and Rauktis 2014), young people 'may be the front lines of financial inclusion'. Financial inclusion in young adulthood is more likely. However, reckless use of credit products may lead to excessive indebtedness in young adulthood and result in financial exclusion or remaining outside mainstream banking. This threat, resulting from excessive indebtedness of young people, is presented also in works by Williams and Oumlil (2015).

Numerous works, e.g., Demirguc-Kunt et al. (2015), Frączek (2017), Huterski et al. (2020), Korzeniowska and Huterska (2020), indicate the existence of a strong spatial differentiation of financial inclusion and the popularity of using specific financial products. The results of the research conducted by Lusardi (2015) showed, however, no correlation between the country's GDP and the results of the test on the knowledge and financial skills of young people. The level of financial skills depends not only on the type and manner of transferring knowledge to young people through formal education systems, which varies between countries. Banks, financial institutions and various types of organizations, both governmental and non-governmental, operating in individual countries also play an important role in providing information about the benefits of using specific financial products and the related risks. The influence of the peer group on young people also plays an extremely important role. Taking into account the diversity of the European Union member states not only in terms of education systems, but above all the experiences of individual societies in taking advantage of the opportunities offered by the market economy.

The research objective of the study was to assess the specificity of disproportions in the use of loan products by young people aged 15–24 in the old and new European Union countries.

In the article, the following research hypothesis was formulated:

The differences in the level of financial exclusion of young people in the scope of using credit products among new and old member states of the European Union cannot be found.

The analyses conducted constitute an introduction to a broader study on the indebtedness of young people in the European Union member states, and the diversity of this phenomenon, while taking into account the level of financial knowledge of young people.

2 Data and Research Methods

The study analysed the degree of use by people aged 15–24 of banking products such as a credit card and a loan in a financial institution. The analysis used data obtained from the Global Findex Database (The World Bank 2017b), which contains the results of a survey conducted among households in 2017. The data collected in the Global Findex database are drawn from survey data covering almost 150,000 people in 144 economies—representing more than 97% of the world's population. The data used in the article come from a survey conducted in 2017 by Gallup Inc. According to 2017 Global Findex Survey Methodology, they carried out surveys of approximately 1000 people in each of the member states of European Union,[1] using randomly selected, nationally representative samples. The target population was the entire civilian, noninstitutionalized population aged 15 and above. The interviews were conducted by means of landline and mobile telephones*, face to face conversations** and only with mobile telephones*** (The World Bank 2017a).

Statistical analysis of data on the degree of use of the financial products in question was applied as a research method.

A preliminary analysis of the relationship between the shares of respondents using specific types of financial services was also carried out. For the dependency between having a credit card in and borrowing from a financial institution, Pearson correlation coefficients were calculated and their significance was checked using t-statistics (Sobczyk 1997, p. 253; Piłatowska 2006, p. 103; Kufel 2013):

In the European Union countries (EU_ALL) there is a moderate, positive correlation (0.4320) between the share of credit card holders and the share of borrowing in a financial institution.[2] On the correlations the t-statistics prove that calculated correlation for variables are statistically significant (i.e., the null hypothesis about the irrelevance of the correlation coefficient at the significance level of a = 0.05 is rejected, $|t| = 2.442 > t_{\alpha,s} = 2.056$, where $\alpha = 0.05$, $s = 26$.).

Taking into account the above dependencies, the further part of the paper presents the differentiation of share of consumers' own credit card and loan in a financial institution in the old European Union member states compared to the new.

[1]Austria* May 30–Jun 28, Belgium* Jul 11–Sep 18, Bulgaria** May 11–Jun 26; Croatia** May 23–Jul 9, Cyprus Apr 27–Jun 20, Czech Republic** Apr 4–Jul 11, Denmark May 5–May 30, Estonia** Jun 15–Jul 15, Finland*** Apr 26–May 30, France * Apr 19–May 18, Germany* Apr 19–May 18, Greece** May 20–Jun 16, Hungary** May 14–Jun 21, Ireland* Mar 14–Apr 10, Italy* Jan 30–Feb 23, Latvia** Jun 5–Jul 27, Lithuania** Jul 17–Aug 6, Luxembourg* Apr 19–May 18, Malta* Mar 17–Apr 15, Netherlands* Jul 11–Sep 1, Poland** Aug 12–Sep 25, Portugal* Mar 27–May 3, Romania ** Apr 12–Jun 15, Slovak Republic** May 12–Jun 6, Slovenia* Mar 3–Apr 5, Spain* Jan 30–Feb 23, Sweden* May 3 May 30, United Kingdom* Mar 14–Apr 10.

[2]Correlation coefficients between credit card ownership and borrowed in financial institution, calculated using the observations 1–28, 5% critical value (two-tailed) = 0. 0217.

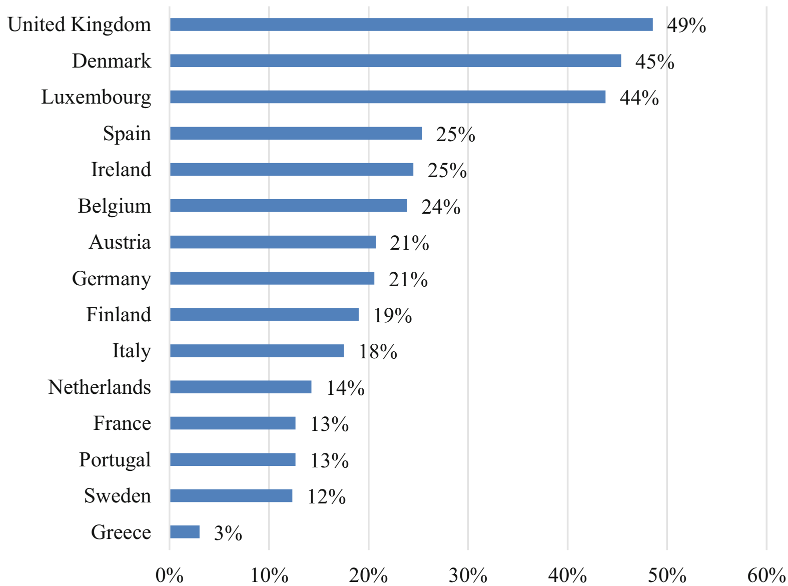


Fig. 1 Credit card ownership by young adults in the old European Union countries

3 Credit Card Ownership

In both groups there were countries where only about 3% of respondents declared that they had credit cards. The highest proportion of respondents with a credit card (48.57%) was in Great Britain (see Fig. 1), which until 2020 had belonged to the old EU countries. The percentage of credit card holders in Denmark and Luxembourg, belonging to the group of old member states of the European Union, and Malta (see Fig. 2), which has been a member of the European Union since 2004, was at a similar level. Greece was the country of the old European Union in which the number of young adult people declaring owning a credit card was the smallest (3.03%). Also, Sweden (12.36%), Portugal (12.65%), France (12.66%) and the Netherlands (14.25%) were among the countries from the old EU with the number of people using this financial product considerably below the median.

In the new member states of the European Union, only in Malta the percentage of young adults owning a credit card (41.91%) was similar to the percentage of people possessing this product in Denmark or Luxemburg (see Figs. 1 and 2). In Bulgaria, Poland, Hungary and Romania the percentage did not exceed 5%.

Despite similar minimum and maximum values in both groups, the median in the EU_old group (22.60%) was twice as high as the median in the new EU countries group. On the one hand, this proves that the new EU countries belong to the countries where the popularity of credit cards among young people is very low. On the other hand, however, this group includes countries where young people use this product to a similar degree as in the old EU countries.

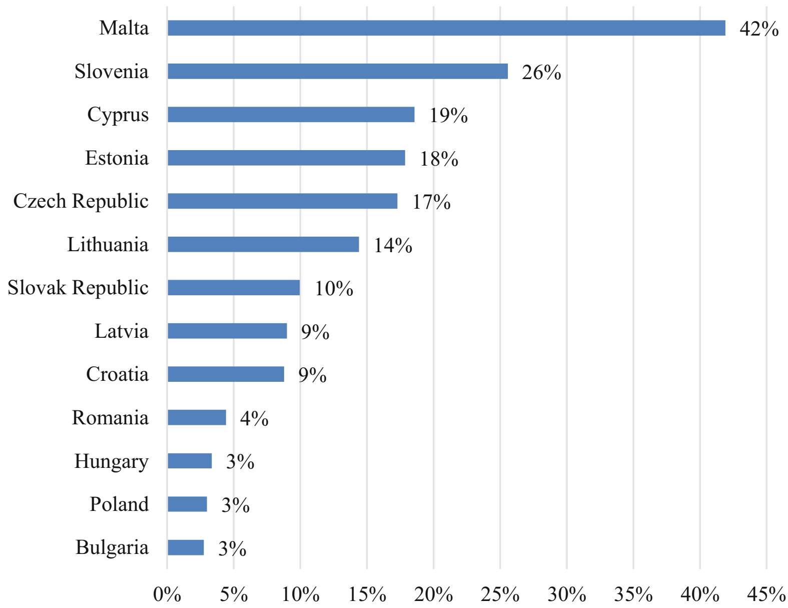


Fig. 2 Credit card ownership by young adults in the new European Union countries

The much lower popularity of credit cards (The median = 20.6% for EU_old and 10.0% for EU_new) when compared to accounts in financial institutions (The median = 92.6% for EU_old and 62.6% for EU_new) among people aged 15–24 results, on the one hand, from the natural income limitations for this age category, and, on the other hand, from the existence of alternative methods of satisfying the needs of short-term increase in available funds (see Table 1).

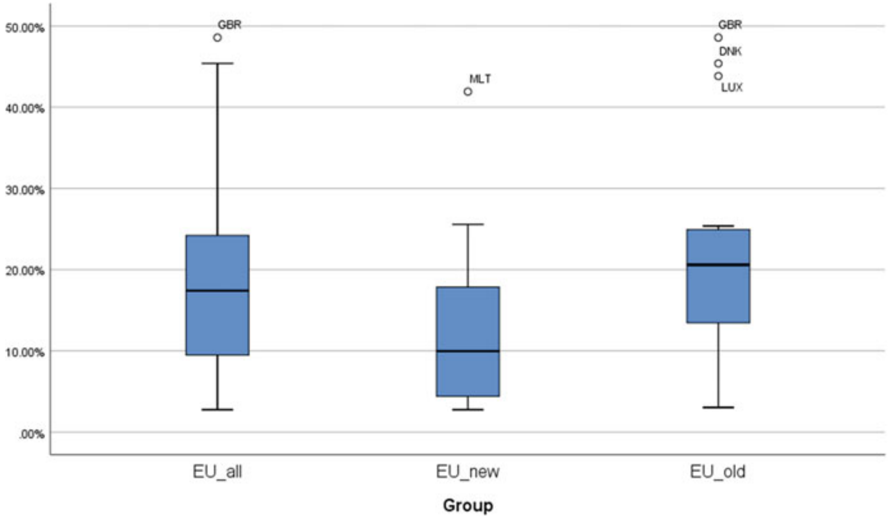
In the first case, one should take into account the limited creditworthiness of the majority of young people due to the lack or limitation of personal permanent sources of income. In the second case, the option of obtaining a current account credit facility and using it with a debit card may affect the reduction of interest in credit cards. In some countries, this may also be the result of the high popularity of easy, though costly, indebtedness in non-bank loan companies, which, unlike banks, do not use extensive creditworthiness assessment procedures (payday loans, e.g., the United Kingdom, where the authorities recognized such debts among young people as a serious problem—Rowlingson et al. 2016).

It is also important that the card owner pays fees and commissions to the financial institution that provides the service.

Factors affecting the popularity of having credit cards among young people are certainly even more complex and varied, as evidenced by the lack of a clear geographic (north-south) or income (rich-poor) pattern in the distribution of credit card popularity among countries, as in the case of accounts and debit cards. For example, Slovenia, a post-socialist country from the EU_new group of countries, has a share of credit card holders of almost 26%, while in the EU_old group in Greece

Table 1 Statistics for credit card ownership (%)

Group	n	Sd	25%	Me	75%	min	max	Skew	kurtosis	Se
EU_new	13	13.6	4.4	10.0	17.9	2.8	41.9	1.4	2.5	11.1
EU_old	15	23.0	13.5	20.6	24.9	3.0	48.6	0.9	0.1	13.3
EU_ALL	28	18.6	9.5	17.4	24.2	2.8	48.6	1.0	0.4	13.0



Source: the author's own calculations based on data from The World Bank (2017b)

this share is 3%, in Sweden it is just over 12%, similar to Portugal and France. Even in the Czech Republic, another post-socialist country in the EU_new group, the share of credit cards is over 17% despite the fact that it is a country with extremely low popularity of having accounts in financial institutions and debit cards among young people. At the same time, in neighbouring Poland (also a post-socialist EU_new country), this share is the same as in Greece, i.e., 3%.

4 Taking Loans from a Bank or Other Formal Financial Institution

While the possibility of getting into debt due to having a credit card was personalized in the Findex survey, in the case of other forms of borrowing any money by respondents, both indebtedness incurred individually and jointly with another person were taken into account. Here we focus on borrowing from a bank or another type of formal financial institution. Data on borrowing from family, relatives, or friends or

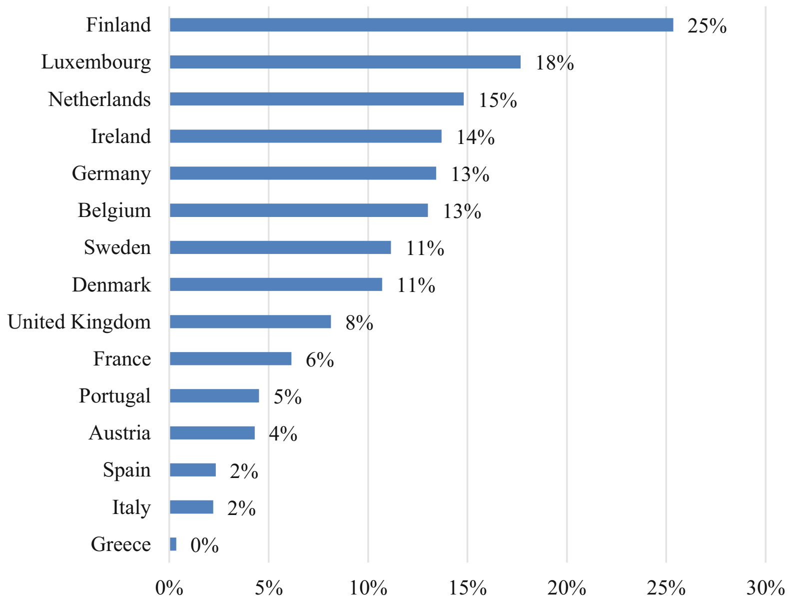


Fig. 3 Borrowing from financial institution by young adults in the old European Union countries

from an informal savings group/club as alternative sources of additional funds are interesting material for comparison, however, it is beyond the scope of this article.

In the old EU, Finland was the country in which the most young adults had a debt in a financial institution (%). However, in Portugal, Austria, Spain, Italy and Greece the percentage did not exceed 5% (see Fig. 3).

The percentage of young adults with a debt in a financial institution in the group of the new members of the European Union does not exceed 11%. The highest percentage can be seen in Lithuania and Malta, the lowest in Latvia, Hungary, Cyprus and Bulgaria (see Fig. 4).

Borrowing from a credit institution is even less popular among young people than having a credit card. There were countries within the analysed groups where less than 1% of young people used a bank loan or a loan from a financial institution. The exceptions are the new EU countries, where the lowest share was over 2% in Latvia. In this group, the median was also at the level of 8.8%, while in the country with the highest use of loan products, i.e., Lithuania, this share was 10.3%, which is significantly below the highest values in the old EU (see Table 2).

A significant element that hinders inference on the basis of data on the popularity of loans among the young is the differentiation of the percentage of students (tertiary level education) in relation to people in the typical study age range between the countries surveyed. According to the data of the UNESCO Institute for Statistics (for 2017–2018), tertiary school enrolment in Central Europe and the Baltics is 62%, in the European Union 69%, in the OECD member countries 74%, and in all high income countries it is 75%. However, within the European Union, there is a

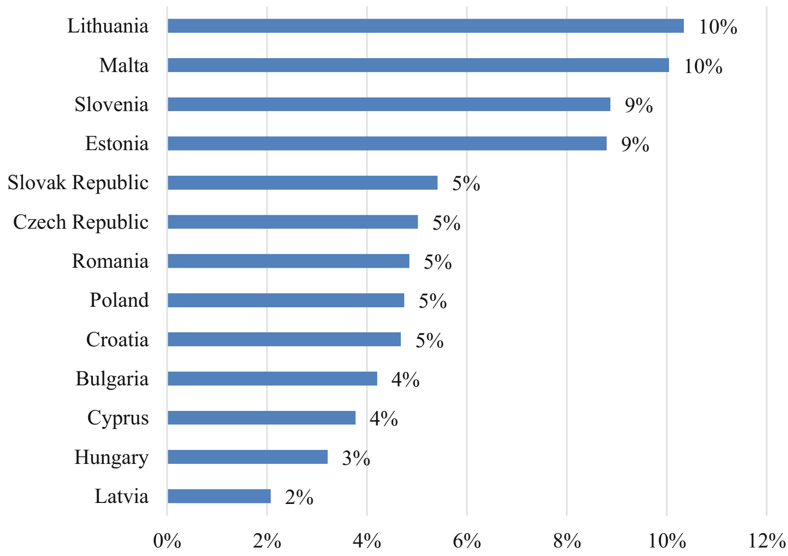


Fig. 4 Borrowing from financial institution by young adults in the new European Union countries

significant variation, from 47% in Slovakia, 88% in Latvia in the EU_new countries group, and from 60% in the United Kingdom to 89% in Spain in the EU_old group. We omit Luxembourg (19%), due to the specificity of this small country, and Greece (137%), due to the specific use of higher education to combat unemployment in the conditions of the economic crisis.

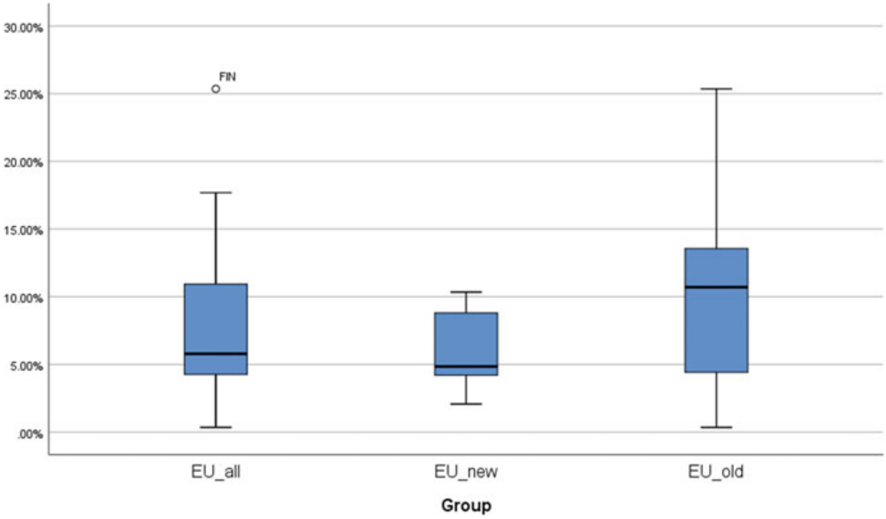
Data on the popularity of loans from financial institutions among adolescents aged 15–24 are not accurate enough to distinguish having a student loan from other types of loans, and also from ordinary consumer loans. This means that the correct interpretation of data would require not only knowledge of the participation of students in this age group, but also of the financial student support systems in individual countries. The availability of preferential loans for students may in practice be used to a different extent by young people from different countries, due to the different structure and competitiveness of scholarship systems.

The differences in the level of life and financial independence of young people in individual countries should also be considered, which may result from both economic and cultural background, as well as from differences in the functioning of banking systems in individual countries. All these factors require taking a cautious approach when looking for certain regularities in the differences in the popularity of borrowing from financial institutions by young people from different countries.

As mentioned above, credit facilities may take the form of an acceptable overdraft in the current personal account or in the limits assigned to credit cards, which naturally competes with typical loans up to a certain amount. Also, access to payday

Table 2 Statistics for money borrowed from the bank or other formal financial institution (%)

Group	n	Sd	25%	Me	75%	min	max	Skew	kurtosis	Se
EU_new	13	5.9	4.2	4.9	8.8	2.1	10.3	0.6	−1.0	2.7
EU_old	15	9.9	4.4	10.7	13.6	0.4	25.4	0.6	0.3	6.8
EU_ALL	28	8.0	4.3	5.8	10.9	0.4	25.4	1.2	2.0	5.6



Source: the author's own calculations based on data from The World Bank (2017b)

loans from institutions that are not banks or other formal financial institutions, such as pawnshops and many online loan companies, can have a similar effect.

5 Discussion and Conclusions

Several important conclusions of a different nature follow from the above considerations. The new member states of the European Union (EU_new) as a group show a lower degree of inclusion in financial services among young people aged 15–24 in terms of credit cards and loans in a financial institution compared to the group of countries that belonged to the EU already before May 2004 (EU_old). However, the EU_new group turns out to be highly diversified and this is not only due to the fact that Malta and Cyprus are the only countries in this group that have not gone through the era of real socialism. High levels of inclusion in financial services, as evidenced not only by the percentage of people who have an account, but also by those who use other financial products and services, including loans, are present in Slovenia and

Estonia and the distance between them and the weakest EU_new countries in this area, i.e., Bulgaria, Croatia, and Romania, is significant.

Among the countries of the EU_old group, attention should be paid to the low level of having a credit card and a loan in a financial institution in southern European countries, i.e., Greece, Italy, and Spain, compared to northern countries such as the Netherlands, Finland, Denmark, and Sweden. However, the disproportions among the EU_old countries are not as strong as among the EU_new countries. The exception is Greece, which clearly stands out from other EU_old countries and has a banking services level comparable to that of Bulgaria or Romania.

The above comments indicate that although the differences in the wealth of the EU_old and EU_new countries may partly explain the differences in the degree of use of credit products by young people in these countries; however, this link is not clear. The examples of Slovenia, Estonia, and Latvia indicate that it is possible to promote the use of banks and other formal financial institutions among young people effectively also in relatively less wealthy countries.

Careless usage of credit products can lead to the situation in which young people at an early stage of the working life incur debts, which will in the future prevent them from using any credit offer of banks. In Poland, according to the data presented by BIG InfoMonitor and Biuro Informacji Kredytowej (BIK), the credits granted to the 18–24 age group amount to 1.3% of the value and 4% of the number of all active credits. It is also significant that consumer credits constitute the share of almost 70% (cash loans—40.7% and instalment loans—24.8%), overdraft limits amount to 20.9%, credit card debts amount to 12.2% and mortgage loans to as little as 1%. Reckless expenditure, living beyond means or unexpected spending with no savings lead to the fact that one out of every 20 people aged 18–24 experiences financial difficulties (BIG InfoMonitor 2019; Busines Insider Polaska 2019). Moreover, people in the 18–24 age group constitute 1.5% of unreliable debtors in Poland (BIG InfoMonitor 2020). Having an account, which is the first step to financial inclusion, creates an opportunity for young people to develop proper financial habits, the ability to rationally manage their budget and to collect savings. This is extremely important in a situation where young people show a need for credit products later in their lives. However, only skillful use of this group of products, with an appropriate level of financial literacy covering not only knowledge, but also financial habits, can prevent young people from falling into a spiral of debt in the future.

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