

FINANCIAL LITERACY

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In our ever-evolving global economic landscape, the concept of financial literacy has become increasingly pivotal. As individuals and societies grapple with intricate financial structures, it is imperative to recognize the profound impact that financial knowledge and acumen can have on one's personal and professional life. Financial literacy extends far beyond basic money management skills. In this era of constant economic flux, the ability to make well-informed and judicious financial decisions is a skill set that can profoundly shape an individual's financial well-being [1]. As we embark on this exploration of financial literacy, it is crucial to unravel the layers of its importance, examining how it contributes not only to personal financial success but also to the overall resilience and vibrancy of economies.

The basic concepts should be covered first. Budgeting and saving are fundamental pillars of financial literacy, serving as important tools for people to effectively manage their finances and build a secure financial future. Understanding these components and incorporating them into financial planning is critical to achieving financial stability, growth and long-term prosperity. Let's dive into each of these aspects:

a) Budgeting. It is the cornerstone of financial management, providing the basis for allocating income to various expenses and financial goals. A well-written budget takes into account both fixed expenses (such as rent/mortgage, utilities and insurance) and variable expenses (such as groceries, entertainment and discretionary expenses). By tracking income and expenses, people gain insight into their spending habits and can identify areas where they can make adjustments to align with their financial goals. Budgeting helps people live within their means, avoid accumulating debt, and prioritize savings.

b) Savings. Saving involves setting aside a portion of your income for future use, emergencies, or specific financial goals. It is a fundamental

practice that forms the basis of financial stability and sustainability. Savings provide a financial cushion to cover unexpected expenses, avoid debt, and achieve financial aspirations. People can use a variety of savings strategies, including creating an emergency fund, automating savings through payroll deductions or automatic transfers, and setting specific savings goals (for example, for a down payment on a home, vacation, or education). Developing a consistent savings habit, regardless of income level, is critical to achieving financial security and flexibility [1].

Nevertheless, there are five topics that are truly useful, but not everyone pays attention to them:

1. Investing;
2. Saving;
3. Insurance;
4. Taxes and tax planning;
5. Retirement planning.

Investing involves putting money into financial assets with the expectation of generating returns over time. It is a powerful wealth-building tool that enables individuals to grow their financial resources and achieve long-term financial goals such as retirement, education, or wealth accumulation. Common investment vehicles include stocks, bonds, real estate. Understanding investment principles, risk tolerance, and diversification strategies is essential for making informed investment decisions. By investing wisely, individuals can potentially generate passive income, beat inflation, and build wealth over the long term. There is a diverse array of investment options available to individuals seeking to grow their wealth or achieve specific financial goals. The choice of investment depends on factors such as risk tolerance, financial objectives, and time horizon.

Saving is a fundamental financial practice that involves setting aside a portion of income for future use, emergencies, or specific financial goals. It is a crucial component of personal financial management and provides individuals with a financial cushion, stability, and the ability to work towards achieving both short-term and long-term objectives. Here are key aspects of saving: financial goals, regular contributions, cutting unnecessary expenses, avoiding high-interest debt.

Insurance is a financial arrangement that provides protection against the risk of financial loss. It involves the transfer of risk from an individual or entity to an insurance company in exchange for payment of pre-

miums. The primary purpose of insurance is to offer financial security and mitigate the influence of unexpected events or losses. Insurance companies use underwriting to evaluate the risk associated with insuring a particular individual or entity. Factors such as age, health, driving record, and location are considered in determining premiums. The risk assessment helps insurers set appropriate premiums and determine the likelihood of claims.

Taxes are a crucial aspect of personal and business finances, representing a mandatory contribution to government revenue. Tax planning involves making strategic decisions to optimize financial outcomes within the framework of applicable tax laws. Effective tax planning can help individuals and businesses minimize their tax liability while remaining compliant with tax regulations.

Retirement planning is a comprehensive financial process that involves setting aside savings and making strategic decisions to ensure a financially secure and comfortable retirement. It encompasses various aspects, including savings, investment, budgeting, and consideration of social security and other retirement benefits.

In conclusion, financial literacy stands as a cornerstone of individual and societal well-being. The ability to understand and navigate the intricacies of personal finance empowers individuals to make informed decisions, cultivate financial stability, and work towards long-term prosperity. As demonstrated by the various facets of financial literacy, the benefits extend far beyond mere monetary gains. Financially literate individuals are better equipped to weather economic uncertainties, plan for the future, and contribute positively to the overall economic landscape. Therefore, fostering financial literacy is not just a personal endeavor but a collective investment in building resilient and prosperous communities. By prioritizing financial education and embracing the principles of financial literacy, individuals and societies can navigate the complexities of the financial world with confidence and create a path towards a more secure and sustainable future.

References

1. What Is Financial Literacy and Why Is It Important? [Electronic resource] – Mode of access: <https://medium.com/seeds-for-the-future/what-is-financial-literacy-and-why-is-it-important-30547f45c59b>. – Date of access: 13.03.2024.