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# **THE FINANCIAL LITERACY OF CLIENTS – AN IMPORTANT FACTOR FOR BANKS’ SUCCESSFUL DIGITALIZATION**

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**Abstract:** The digitalization of banking operations and the opportunities it provides the clients with has been an important aspect of banking for decades. Banks are among the financial institutions that work actively so that they do not lag behind the global e-business which is moving forward. Successful banking digitalization depends on numerous factors whereas one of them is clients’ financial literacy which significantly predefines how the process of banks’ digital transformation would continue. The research is aimed at outlining banking digitalization’s dependency on the literacy level of clients and the policies to be implemented so that it is successful.

**Key words:** digitalization, commercial banks, clients, financial literacy.

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## **Introduction**

**I**n the last decade the term “digitalization”<sup>1</sup> is getting more and more popular not only in specialized literature, but also within society. We could even say that digitalization is the new paradigm of our modern life. This is

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<sup>1</sup> The term “digitalization” results from the English “digitization”. <https://eu.wikipedia.org/wiki/Digitization>. Digitalization is the process of transforming information into digital (i.e. computer-readable) format. The result is the presentation of an object, image, sound, document or signal (usually, analogue signal) received by generating series of numbers that describe the discrete set of points or samples. The result is called “digital presentation” or in particular, digital image for the site and digital signal pattern.

quite easy to explain taking into consideration the fact that an ever-increasing part of people's life takes place in digital environment today. It is worth mentioning that digitalization is not a topic new to modern society at all. Mobile technologies and the Internet have been widely spread in people's lives, business and the work of institutions for decades. It would not be outstretched to say that the majority of modern people live online. The COVID crisis proved to be one of the exogenous factors, in addition to the European Union's policy, the awareness of the society when it comes to cutting-edge technologies and competition on behalf of fintech companies and the companies for quick loans that resulted in accelerated interest in digital services<sup>2</sup>. Banks are among the financial institutions that work most actively in digitalizing many of their processes, products and services.

### **I. On the essence of “digitalization” and its place in the modern world**

The specialized literature provides numerous definitions of the terms “digitalization” and “digital transformation”. The topics of digitalization and digital transformation and their important place in modern society are widespread in the research works of many scientists and consulting companies, they have been discussed at many scientific forums. The well-established opinion is the one according to which the term “digital transformation” is broader than the term “digitalization”. The research work prepared by M. Orehov on digitalization provides us with grounds to define processes' succession, namely: digitization – digitalization – digital transformation (Orehov, M. 2020). Thus from “keeping information online and creating models of various processes in digital version” (digitization) we proceed to “achieving business evolution via integrated digital technologies in the available processes” (digitalization) and make it to “a fundamental transformation of business and organizational activities, processes, competencies and models” (digital transformation) (Orehov, M. 2020).

According to one of the opinions, digitalization “according to its initial meaning refers to turning analogue data into digital ones” (Ochs, T., Riemann, U. A., 2018). Another consideration of digitalization in greater detail defines it as “a process of digital transformation of everything that could be digitized and the process of information conversion into digital version” (Fors, A.C.,

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<sup>2</sup> The exogenous and endogenous factors that significantly impact bank operations digitalization are considered in detail in “Comprehensive digitalization of the business – another challenge the commercial banks are facing”, *New Bulgarian University, Economics and Business Yearbook*, 2018.

2013). Digitalization is defined as a “multitude of activities for transforming analogue information resources into digital copies and their storage, access, use, dissemination and security” (Lazarova, V., 2019). Based on the above-mentioned, we could summarize that digitalization is a process related to information transformation from analogue carrier into digital pattern on the grounds of automation, electronization and integration into the already existing processes of a particular organization.

The importance of digitization and digitalization in business practice and people’s lives is evidenced by the fact that the European Commission places as its key priority for the period of 2019 – 2024 large-scale digitization of the European Union member-states (European Commission). Furthermore, the European Union is of the firm opinion that the period from 2020 to 2030 would become Europe’s digital decade (European Commission). Bulgaria, being part of the European Community, could not remain outside the scope of these processes. This is evidenced by the elaborated strategy “Bulgaria’s digital transformation for the period of 2020 – 2030”, whereas the main objective is to catch up with the European values of the basic indexes demonstrating the digitalization level (European Commission Bulgaria). Despite the ambitious aims set by the authorities of our country, digitization is not our forte. According to the data provided by the European Statistical Service, in 2021 we ranked penultimate among the 27 EU member-states when it comes to digitization. Furthermore, despite our country’s technological development that has risen to 36.8 compared to 2020, yet it is among the lowest because the other member-states develop faster from technological point of view (European Commission). All these come to show everything else that needs to be done, invest resources in digitalization, education and young people just as Ursula von der Leyen, President of the European Commission, noted (European Commission).

## **II. The new dynamics of digitalization of commercial banks in our country**

Despite the belief about banks that has existed throughout the years, namely that they are conservative institutions, long ago they stopped being such when it comes to implementing the newest technologies. This is supported by numerous facts – as soon as in the middle of the 90s of the past century, the commercial banks in our country started installing ATMs and issuing debit cards and then credit cards, to be using in their work computers and POS devices that are of the latest generation and are faster and faster. Later on, online banking, mobile banking and the specialized self-service areas

were introduced. All these operations show that banks know how to take advantage of the turbulent technological development towards digitalization and successfully use them in their business while digitalizing it. It is no exaggeration to say that there is no bank in Bulgaria that has not digitalized some or the majority of its processes and the products and services it offers. Actually, today's competition among banks is not in terms of interests accrued on deposits and loans, but about the way each and every of them would respond to the new realities and the new attitudes of clients. This type of new reality is the global pandemics brought about by COVID 19. Even though banks were among the few institutions that didn't shut their offices down and kept servicing their clients irrespective of the pandemics, working remotely in the companies directed them towards online banking and people – towards shopping from their mobile devices. Banks demonstrated that they are ready to cope with the new challenges.

At present, there is no bank in our country irrespective of its size that has not elaborated its own digitalization strategy including some or all of the abovementioned activities:

- Establishment of structures to be performing the digitalization or entering into collaboration with fintech companies for joint work in this light;
- Digitalization of internal banking processes;
- Digitalization of products and services;
- Implementation of cyber-attacks protection systems;
- Elaboration of policies for providing the clients with incentives to be using the digital channels;
- Client service.

In the last two or three years in the banking sector we have witnessed severe competition among the big banks for leadership during the digitalization process. Naturally, in their capacity of bank subsidiaries in countries of the Western world, they transfer parent-banks' experience and this makes the digitalization process easier for them. The pressure on behalf of the fintech companies and the COVID crisis has resulted in directing the efforts of bank managers towards improving mobile banking and in particular, payment operations.

In this light, one of the leading banks is UniCredit Bulbank. Its huge success in digitalization is witnessed by the fact that it was proclaimed the best digital bank of Bulgaria in 2021 in the ranking published by the international financial magazine Global Financial (Unicreditbulbank.bg). This is a very substantial acknowledgement since the selection criteria are quite comprehensive, namely:

- Evaluation of the strategy for recruitment and digital service of clients;

- Growth of the consumers of digital channels;
- Utility of services to clients;
- Design and functionality of channels.

One of UniCredit Bulbank's newest achievements (Unicreditbulbank.bg), which is worth paying attention to is the so-called digital portfolio Mobile for Android devices. Some of the main functions of this new product are the following:

- Via it, the bank's clients who have mobile telephones with Android operating system could digitalize their debit and/or credit card. This digital portfolio is accessible in the case of Visa cards for physical persons and legal entities, and in the case of the Mastercard cards – only for physical persons;
- Adding a bank card to the digital portfolio;
- Effecting payments with the digitalized debit and/or credit card via mobile telephone, without having to fill in IBAN.

On the bank's website, in simple words, it is explained how to effect payment with such a card or what the client should take into consideration, before starting to use this service. Beyond doubt, this is a new step in the digitalization process. Yet, in this case we have certain limitations and the most important among them is that the digital portfolio could be used solely by clients with Android devices and the version should be higher than 8. The other limitation is that in the case of holders of debit or credit cards issued by Mastercard, this product could be used solely by physical persons.

Postbank also works actively in terms of digitalization (Postbank.bg). It, just like UniCredit Bulbank, has achieved success in terms of mobile banking. This is evidenced by the two international awards in the World Finance Digital Banking Awards 2020 competition granted by one of the most authoritative global editions – World Finance Magazine in the category “Best digital bank” and in the category “Best mobile banking application” (Postbank.bg). The new product offered by Postbank is called ONE Wallet (Postbank.bg). The advantage of Postbank's digital portfolio compared to the one by UniCredit Bulbank is that it could be used by the holders of telephones with operating system Android and by the holders of telephone with operating system iOS, i.e. by iPhone through the functionality Wallet of Apple Pay. This is a significant competitive advantage that brings about another one and it is highlighted by the bank – the holders of a digital portfolio could use other mobile devices – smartwatches Apple Watch, Garmin or FitBit. Thus, rightfully so, Postbank could claim this is a mobile portfolio of the latest generation. It is worth paying attention to the opportunities provided by the digital portfolio on the website (Postbank.bg):

- Immediate blocking or unblocking each and every card issued by the bank;
- Opportunity to use various payment channels – ATM, POS device, the Internet;
- Performance of rapid money transfer among the users of the digital portfolio;
- Addition of loyalty card, just by scanning the barcode;
- No fees should be collected for the maintenance and service when using the digital card.

In view of the holders of debit and credit cards, who do not use digital portfolio, the bank has introduced the convenience of receiving PIN code via SMS, and not on paper. The website of the Postbank explains in simple language and detail the manner in which the client could receive the PIN code. In order to limit data misuse, recommendation was issued for the client to change the PIN code, only at an ATM device.

Next, it is worth paying attention to a new digital application – Digital Office; furthermore, the bank claims it is the first company in our country that in collaboration with Yettel Bulgaria (the previous name of the mobile operator was Telenor) introduces it (Postbank.bg). The bank's employees use its advantages. Here we are talking about the development of one of digitalization's important directions – the internal processes within the bank. Just as in the case of ONE wallet, with this application, all it takes is for the bank employee to hold Android or iOS device. The described functionalities of the application are: digital index with information and contact info of each and every bank employee; possibility to register internal events, communications among employees, special benefits, access to training sessions, internal procedures and resources, open work positions in the bank, section with internal news that makes it possible to share articles, photos and links (Postbank.bg).

Allianz Bank's efforts are aimed in another direction. The Bank implements the platform Credit Quest (Allianz.bg), designated for business crediting. The platform was developed jointly with the global technology company Software Group and contains four modules – credit manager, financial analyst, rating manager and portfolio manager (Allianz.bg). As you could see from the four modules, the platform would cover the whole crediting process, starting with the request for having a loan issued and the other documents requested by the bank, proceed through analysis of the financial position and define the applicant's credit rating and the collateral, define the credit risk level, define the loan parameters, loan monitoring, credit risk management and end up with credit extinguishment. This is the bank's important innovative step towards its digitalization because entire digital processes of issuing loans are offered only in terms of consumer loans.

In terms of loans' issuance digitalization, it is worth mentioning a foreign bank that entered our banking market in 2021 - Bigbank AS – branch Bulgaria<sup>3</sup> (Bigbank.bg). The bank presents itself as a digital bank in terms of raising savings via deposits with fixed term, as well as when issuing loans to physical persons (Bigbank.bg). The deposits placed at it have been guaranteed by the Fund for deposits guarantee of Estonia. The deposits' terms are from one to one hundred and twenty months, as well as the interest amount depends on the deposit term and the period for which it is payable – monthly, annually or at the end of deposit's period. The interest's maximum amount is 2 % for deposits of 120 months. The three credits offered by the bank are: consumer loan, loan for repairs and furnishing and loan for vehicle purchase without initial instalment. Nevertheless, what draws our attention is that only in the case of consumer loan it is stated that the credit issuance process is entirely digital.

In terms of issuing loans, the Bulgarian-American Credit Bank offers its clients one hundred per cent application, evaluation of creditworthiness and credit utilization in the digital application BACB Plus (Bacbplus.bg). Only physical persons could take advantage of this virtual loan.

Another commercial bank, Investbank offers its clients – physical persons, an online consumer loan. It is part of the mobile application Ibank Mobile, which was ranked third in the category “Mobile innovation” in the annual business awards B2B Media Awards (Ibank.bg). The service “Quick online consumer loan” is an entirely digital process of issuing loans. The online consumer loans are also offered by the following banks: UniCredit Bulbank, DSK, UBB bank, TBI bank.

### **3. Improvement of clients' financial literacy – a factor for the successful digitalization of banks**

Digital banking's success depends on numerous factors, one of them being the banks' clients. The fact that banks have elaborated digital platforms for online and mobile banking, via which clients could pay, make deposits, extract the information they need, get consumer loans, etc., does not mean they are equally ready to get advantage of them, especially, when it comes to

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<sup>3</sup> Bigbank AS was incorporated in Estonia. It has an experience of many years – since 1992. It is specialized in servicing physical persons – raising deposits and issuing loans. It has opened branches in many countries throughout Europe – Latvia, Lithuania, Finland, Sweden and Bulgaria, whereas in them it accepts deposits and issues consumer loans. In Austria, Germany and the Netherlands it performs only deposit operations. (<https://www.bigbank.bg/>).

being active users. The clients being not only open to novelties in banking, but also using them greatly depends on their financial literacy.

The data about our country are not encouraging. The report by the European Commission for 2021 concerning the progress of digitisation in Bulgaria, in terms of “digital technologies’ penetration of economy and society” index, the value of the individual indicators concerning people’s skills show that we are significantly lagging behind the ones for the European Union (European Commission):

- only 29 % of our population aged 16 to 74 has at least basic digital skills, whereas this per cent of the European Union’s population is 56 %;
- only 36 % of the Internet consumers in Bulgaria are consumers of services for e-management, whereas this share in the European Union is 64 %.

At a European Union level, they are actively working for promoting people’s financial literacy, especially after the financial crisis of 2008. Of course, our country did not stay idle when it comes to the need for financial services to be used by people of better literacy. An exceptionally important step in this direction is the National strategy elaborated and passed with Resolution by the Council of Ministers dated the 10 February 2021, namely the National strategy for financial literacy in the Republic of Bulgaria (2021 – 2025) and the Action plan to it (Ministry of Finance). One of the main priorities of this strategy is “the development of knowledge and skills for using the digital technologies for promoting financial literacy” and the main objective is “the financial literacy level in our country should approximate the average for the European Union and the Organization for Economic Co-operation and Development” (Ministry of Finance). The opportunity for Bulgaria, along with five other countries, to start negotiations for membership in the Organization for Economic Co-operation and Development, one of the most prestigious worldwide, would contribute for accelerating the process of people’s financial literacy. In this case, it is worth mentioning the fact that we are not a member of this prestigious world organization; yet, according to the information provided by the Ministry of Interior, at present, Bulgaria participates with the statute of “member”/“associate” in the operations of 13 working bodies; in 6 other bodies it has the statute of “participant” and in 19 it is a “guest”/“observer” (Ministry of Foreign Affairs, 2022). Based on a large-scale research for 2019, performed by the Organization for Economic Co-operation and Development according to its methodology, the overall level of people’s financial literacy in our country is only 58.5 %, whereas the average globally is 60.5 %. One more thing, young people are with the lowest result when it comes to financial literacy level – 53%, 61 % it is for people aged between 30 and 60 and 57 % for the people aged over 60 (Oecd.org). On the grounds of the Manual on the implementation of national strategies for



financial education prepared by this organization (OECD/INFE, 2015), in 2018 research was held concerning the financial literacy of 15-year-old students in 20 countries and Bulgaria was included as a country outside the Organization for Economic Co-operation and Development. The results are troublesome – whereas the average result for the Organization when it comes to financial literacy is 505 points, for the students in our country it is 432 points.

The formulation of the main directions in which we should be working in order to achieve such a level of financial literacy that allows the smooth usage of banking digital platforms, requires a definition of financial literacy. This is done in the National strategy for financial literacy, namely – “a combination of financial awareness, knowledge, skills, attitude and behaviour that are necessary in order to make sustainable financial decisions and achieve individual financial prosperity as a final goal” (Minfin.bg).

The fact that young people have the lowest level of financial literacy – the ones aged below 30 gives us grounds to direct our efforts towards the pupils and students in our country. The development of basic financial culture should start as soon as the primary education. Nowadays, seven-year-old and older children are the ones with their tablets and mobile telephones. This makes the topic of using digital platforms more interesting and understandable. Presentations that have been carefully prepared by banking experts could provide the young pupils with basic knowledge about the digital banking world in which they live. This practical knowledge should be deeper during the years of secondary education, furthermore, older students already use bank cards to which they receive their scholarships and effect payments. Thus, using a bank’s digital platform would be easy and convenient to them.

University students are supposed to acquire the most in-depth knowledge in finance and in particular – the usage of digital platforms. Banks are not idle in this light. Exemplary is the behaviour of DSK. It is partner of AIESEC – Bulgaria, which is the largest student organization globally with representative offices in over one hundred countries including in Bulgaria, and participates in an event of theirs called “Levcheto” in 2019 and in 2020 (Dskbank.bg). The goal of this student organization is to improve university students’ financial literacy with bank’s assistance.

DSK performs cooperation with the foundation “Initiative for financial literacy”. It is manifested by the “National financiad” held in 2019 (Dskbank.bg) and in 2020 (Dskbank.bg) with students of two age groups – students aged between 14 and 16 and students aged between 17 and 19.

The foundation “Initiative for financial literacy” also has significant contribution to young people’s financial literacy. As early as it was established in 2012, it outlined as its goal the activity with children and youths

(Financialliteracy.bg). Additionally, the foundation is part of the interministerial working group in financial literacy to the Ministry of Finance.

In terms of digital financial literacy, the experts of the foundation are of the opinion that tuition should highlight not only the use of digital technologies as communication channels, but the improvement of awareness and training in view of digital financial products and services – their essence, risks, cyber security (Financialliteracy.eu). This tuition is suitable for students aged from 14 to 19.

When it comes to the middle-aged generation and the generation of elderly people, financial literacy among them is acquired most often via self-tuition. This is possible since there is no bank in our country that does not provide on its website, in simple words, the information one needs to use a particular digital product or service, information and directions for accessing and using via client manual or pieces of advice for better security. The banks' efforts are great because they realize they need to change the way many of their clients think, since they have been using the traditional banking channels for many years.

## **Conclusion**

The present research that is far from exhaustive in view of banking operations digitalization and its aspects shows that banks are among those financial institutions that are very fast to introduce the new technological solutions in their work. Furthermore, they develop digital banking with rates never seen until today in the banking sector. And this is quite easy to explain – we live in the epoch of comprehensive digitalization. Many clients respond to new realities – mobile banking gradually turns into the main channel for the so-called retail banking. One of the factors for successful digitalization of banking operations just like we already noted is the human factor. The analyses above show that people's digital skills in our country are still low, even though young people use constantly mobile devices since their early years and cope better than adults. This is another challenge for the banks themselves, the Ministry of Finance, the Ministry of Education and the foundations which work in the educational sector. Namely because of this, the financial literacy level in Bulgaria approximating the average level in the European Union and the Organization for Economic Co-operation and Development is a goal set in the National strategy for financial literacy in the Republic of Bulgaria (2021 - 2025).

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