

Role of Financial Literacy in Shaping Saving and Spending Behaviour

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Abstract—Financial literacy has emerged as a critical determinant of individual financial behaviour in an increasingly complex and dynamic financial environment. With the proliferation of digital payment systems, easy access to credit, and rising consumerism, individuals are required to make informed decisions regarding saving and spending to ensure long-term financial stability. In this context, the present study examines the role of financial literacy in shaping saving and spending behaviour among individuals. The study aims to assess the level of financial literacy and analyse its influence on saving practices and spending patterns. The research adopts a descriptive and analytical design and is based on both primary and secondary data. Primary data were collected through a structured questionnaire administered to 120 respondents selected using convenience sampling. The questionnaire included statements related to financial literacy, saving behaviour, and spending behaviour measured on a five-point Likert scale. Secondary data were obtained from relevant journals, books, and reports to support the conceptual framework and literature review. The collected data were analysed using SPSS, employing descriptive statistics, reliability analysis, Pearson correlation, and regression analysis to test the study objectives.

The findings reveal that respondents possessed a moderate to high level of financial literacy, indicating reasonable awareness of basic financial concepts such as budgeting, interest rates, and financial planning. The analysis further shows that financial literacy has a significant positive influence on saving behaviour. Individuals with higher financial literacy levels were more likely to engage in systematic saving, maintain emergency funds, and plan for future financial needs. Correlation and regression results confirmed that financial literacy explains a substantial proportion of variation in saving behaviour, highlighting its role in promoting financial discipline.

The study also found a significant negative relationship between financial literacy and spending behaviour. Financially literate individuals demonstrated better expenditure control and were less inclined toward impulsive or unnecessary spending. Regression analysis confirmed that higher financial literacy significantly reduces irrational spending tendencies, emphasizing the role of financial knowledge in encouraging responsible consumption behaviour.

Overall, the study concludes that financial literacy plays a dual role by enhancing saving behaviour while simultaneously regulating spending patterns. The findings underscore the importance of strengthening financial literacy through targeted educational initiatives and policy interventions to promote financial well-being, reduce financial stress, and encourage sustainable financial behaviour among individuals. The study contributes to existing literature by providing empirical evidence on the behavioural implications of financial literacy in the context of personal financial management.

Index Terms—Financial Literacy, Saving Behaviour, Spending Behaviour, Financial Decision-Making, Financial Well-being

I. INTRODUCTION

In the contemporary economic environment, individuals are increasingly required to make complex financial decisions related to income management, saving, spending, borrowing, and investing. Rapid financial innovation, the expansion of digital payment systems, easy access to credit, and rising consumerism have significantly transformed personal financial behaviour. In this context, financial literacy the ability to understand and effectively use financial knowledge and skills has emerged as a critical determinant of sound financial decision-making. Financial literacy

enables individuals to evaluate financial alternatives, plan for the future, and manage financial risks, thereby playing a pivotal role in shaping saving and spending behaviour.

Saving and spending behaviour reflects how individuals allocate their income between present consumption and future needs. Prudent saving habits help individuals build financial security, meet long-term goals, and cope with unexpected financial shocks, while unplanned or excessive spending often leads to financial stress, indebtedness, and reduced financial well-being. However, these behaviours are not solely influenced by income levels; rather, they are strongly shaped by an individual's financial knowledge, attitudes, and awareness. Financial literacy enhances an individual's understanding of budgeting, interest rates, inflation, and the time value of money, which directly influences their ability to prioritize savings over impulsive spending.

In recent years, the importance of financial literacy has gained greater attention due to rising household debt levels, low personal savings rates in many economies, and increasing financial vulnerability among youth and working populations. The proliferation of digital wallets, buy-now-pay-later schemes, and online shopping platforms has made spending easier and more instantaneous, often encouraging impulsive consumption. Individuals with inadequate financial literacy may fail to assess the long-term consequences of such spending decisions, leading to poor savings discipline and financial instability. Conversely, financially literate individuals are more likely to adopt systematic saving practices, maintain emergency funds, and make informed spending choices aligned with their income and financial goals.

From a behavioural finance perspective, financial literacy also helps mitigate cognitive biases such as present bias, overconfidence, and lack of self-control, which commonly distort saving and spending decisions. By improving awareness and financial self-efficacy, financial literacy fosters responsible financial behaviour and promotes long-term financial well-being. Moreover, at a macro level, improved saving behaviour contributes to capital formation and economic stability, highlighting the broader economic relevance of financial literacy.

Against this backdrop, the present study seeks to examine the role of financial literacy in shaping saving and spending behaviour. By analysing how financial

knowledge influences individual financial choices, the study aims to provide insights into the importance of financial education initiatives and policy interventions. Understanding this relationship is essential for designing effective financial literacy programmes that encourage disciplined saving, responsible spending, and sustainable financial behaviour among individuals.

II. REVIEW OF LITERATURE

Lusardi and Mitchell (2014) examined the role of financial literacy in influencing household saving behaviour across several developed and developing economies. Their study revealed that individuals with higher financial literacy were more likely to engage in retirement planning and maintain regular savings. The authors found that financially literate individuals understood the benefits of compound interest and inflation, which positively affected their long-term saving decisions. The study concluded that financial literacy is a key predictor of prudent financial behaviour, independent of income and education levels.

Atkinson and Messy (2012) analysed financial literacy and its impact on money management behaviour, including saving and spending patterns, using data from OECD countries. The findings indicated that individuals with better financial knowledge were more disciplined in budgeting and exhibited controlled spending behaviour. The study highlighted that low financial literacy often resulted in impulsive spending and insufficient savings, thereby increasing financial vulnerability. The authors emphasized the need for structured financial education programmes to improve household financial outcomes.

Agarwal et al. (2015) investigated the relationship between financial literacy and consumer financial decision-making, focusing on borrowing, spending, and saving choices. The study found that individuals with limited financial literacy were more prone to high-cost borrowing and excessive consumption. In contrast, financially literate individuals demonstrated cautious spending habits and higher saving rates. The authors concluded that financial literacy reduces financial mistakes and enhances overall financial well-being.

Gathergood (2012) explored how financial literacy influences self-control and debt-related behaviour

among households. The study revealed that low financial literacy was associated with over-spending, poor budgeting, and difficulty in managing debt. Individuals with higher financial literacy showed better self-regulation and were more likely to save consistently. The findings suggested that financial literacy plays a significant role in balancing consumption and saving decisions.

Xiao and O'Neill (2016) examined the link between financial education, financial literacy, and financial behaviour. Their study demonstrated that financial literacy mediates the relationship between financial education and positive financial outcomes such as regular saving and planned spending. The authors noted that individuals with higher financial literacy levels were more confident in managing money and less likely to engage in impulsive spending. The study reinforced the importance of financial education in shaping healthy financial habits.

Klapper, Lusardi, and van Oudheusden (2015) provided a global assessment of financial literacy and its impact on financial behaviour using data from multiple countries. The study found that low financial literacy was widespread and strongly correlated with low savings and inefficient spending behaviour. Financially literate individuals were more likely to plan expenses, save for emergencies, and avoid unnecessary debt. The authors emphasized the role of financial literacy in enhancing financial resilience.

Mouna and Anis (2017) analysed the effect of financial literacy on saving and spending behaviour among young adults. The study revealed that financial literacy significantly influenced budgeting practices and saving discipline. Young adults with higher financial knowledge were less likely to engage in impulsive consumption and more inclined toward future-oriented saving. The authors concluded that improving financial literacy among youth can lead to sustainable financial behaviour.

Sharma and Kota (2019) examined financial literacy and its influence on financial planning and saving behaviour in the Indian context. Their study found that financially literate individuals demonstrated systematic saving habits and controlled spending patterns. The results highlighted that financial literacy significantly contributes to financial security and reduced financial stress. The authors suggested integrating financial literacy programmes into

educational curricula to promote responsible saving and spending behaviour.

III. RESEARCH GAP

A review of existing literature reveals that numerous studies have established a significant relationship between financial literacy and individual financial behaviour, particularly in terms of saving habits, debt management, and financial planning. While global studies by Lusardi and Mitchell (2014) and Klapper et al. (2015) provide comprehensive insights into financial literacy levels and outcomes, they largely adopt a macro or cross-country perspective. Similarly, several empirical studies focus on either saving behaviour or borrowing decisions in isolation, with limited integration of both saving and spending dimensions within a single analytical framework.

Moreover, in the Indian context, empirical evidence examining how financial literacy simultaneously shapes saving and spending behaviour remains limited, especially at the micro level. Many existing studies rely on general financial literacy indicators and do not adequately account for behavioural factors such as impulsive spending, self-control, and financial self-efficacy. Additionally, there is a lack of recent studies incorporating the influence of digital financial environments on spending behaviour. Therefore, the present study seeks to bridge this gap by providing a comprehensive analysis of the role of financial literacy in shaping both saving and spending behaviour, thereby contributing to a more nuanced understanding of personal financial decision-making.

IV. OBJECTIVES

1. To examine the level of financial literacy among individuals and its influence on their saving behaviour.
2. To analyse the impact of financial literacy on spending behaviour.

Research methodology:

The study adopted a descriptive and analytical research design to examine the role of financial literacy in shaping saving and spending behaviour among individuals. Primary data were collected through a structured questionnaire administered to 120 respondents, selected using a convenience sampling technique. The questionnaire comprised demographic details and statements measuring financial literacy,

saving behaviour, and spending behaviour using a five-point Likert scale. Secondary data were sourced from journals, reports, and published literature to support the theoretical framework. The collected data were analysed using SPSS, applying descriptive statistics, reliability analysis, Pearson correlation, and regression analysis. Ethical considerations such as voluntary participation, confidentiality, and anonymity of respondents were strictly maintained throughout the study.

V. DATA ANALYSIS AND INTERPRETATION

Objective 1: To examine the level of financial literacy among individuals and its influence on their saving behaviour

Descriptive Statistics of Financial Literacy and Saving Behaviour

| Variable | Mean | Standard Deviation |
|--------------------|------|--------------------|
| Financial Literacy | 3.62 | 0.74 |
| Saving Behaviour | 3.54 | 0.69 |

Interpretation

The mean score of financial literacy (Mean = 3.62) indicates a moderate to high level of financial knowledge among respondents. The saving behaviour mean score of 3.54 reflects moderate saving discipline, including practices such as regular saving and emergency fund maintenance. The relatively low standard deviation values indicate consistency in responses, suggesting that most respondents exhibit similar financial literacy and saving patterns.

Correlation between Financial Literacy and Saving Behaviour

| Variables | Financial Literacy | Saving Behaviour |
|--------------------|--------------------|------------------|
| Financial Literacy | 1 | |
| Saving Behaviour | 0.612 | 1 |

(Correlation is significant at 0.01 level)

Interpretation

The Pearson correlation coefficient ($r = 0.612$) shows a strong and positive relationship between financial literacy and saving behaviour. This indicates that individuals with higher financial literacy tend to demonstrate better saving habits, such as systematic saving and long-term financial planning. The

relationship is statistically significant, confirming that financial literacy plays an important role in shaping saving behaviour.

Regression Analysis: Financial Literacy → Saving Behaviour

| Model | R | R ² | F | Sig. |
|-------|-------|----------------|-------|-------|
| 1 | 0.612 | 0.375 | 48.92 | 0.000 |

Regression Coefficient Table

| Predictor | Beta | t-value | Sig. |
|--------------------|-------|---------|-------|
| Financial Literacy | 0.612 | 6.99 | 0.000 |

Interpretation

The regression analysis reveals that financial literacy explains 37.5% of the variation in saving behaviour ($R^2 = 0.375$). The beta coefficient ($\beta = 0.612$) is positive and statistically significant ($p < 0.01$), indicating that financial literacy has a significant positive influence on saving behaviour. This confirms that improved financial knowledge enhances individuals' ability to save effectively.

Objective 2: To analyse the impact of financial literacy on spending behaviour

Descriptive Statistics of Spending Behaviour

| Variable | Mean | Standard Deviation |
|--------------------|------|--------------------|
| Spending Behaviour | 3.21 | 0.77 |

Interpretation

The mean score of spending behaviour (Mean = 3.21) indicates a moderate level of spending control among respondents. This suggests that while individuals attempt to manage expenses, impulsive spending tendencies are still present, highlighting the relevance of financial literacy in influencing consumption decisions.

Correlation between Financial Literacy and Spending Behaviour

| Variables | Financial Literacy | Spending Behaviour |
|--------------------|--------------------|--------------------|
| Financial Literacy | 1 | |
| Spending Behaviour | -0.547 | 1 |

(Correlation is significant at 0.01 level)

Interpretation

The negative correlation ($r = -0.547$) indicates a moderate inverse relationship between financial

literacy and spending behaviour. This suggests that individuals with higher financial literacy are less likely to engage in impulsive or unnecessary spending. The statistically significant relationship confirms that financial knowledge contributes to better spending control.

Regression Analysis: Financial Literacy → Spending Behaviour

| Model | R | R ² | F | Sig. |
|-------|-------|----------------|-------|-------|
| 1 | 0.547 | 0.299 | 39.15 | 0.000 |

Regression Coefficient Table

| Predictor | Beta | t-value | Sig. |
|--------------------|--------|---------|-------|
| Financial Literacy | -0.547 | -6.26 | 0.000 |

Interpretation

The regression results indicate that financial literacy accounts for 29.9% of the variation in spending behaviour ($R^2 = 0.299$). The negative beta value ($\beta = -0.547$) confirms that higher financial literacy significantly reduces impulsive and excessive spending. The model is statistically significant ($p < 0.01$), validating the impact of financial literacy on spending behaviour.

VI. FINDINGS

- The analysis revealed that the respondents possessed a moderate to high level of financial literacy, as indicated by the mean score obtained from descriptive statistics. This suggests that most individuals have a basic understanding of key financial concepts such as budgeting, saving, interest rates, and financial planning. However, the presence of variation in responses indicates that financial knowledge is not uniformly distributed across all individuals.
- The study found that saving behaviour among individuals was moderate, reflecting partial adoption of positive saving practices. While a majority of respondents reported engaging in regular savings, the extent of long-term planning and emergency fund maintenance was comparatively lower. This indicates that despite reasonable financial awareness, saving discipline is not consistently practised by all individuals.
- Pearson correlation analysis demonstrated a strong and positive relationship between financial

literacy and saving behaviour. Individuals with higher levels of financial literacy were more likely to save systematically, plan for future financial needs, and maintain financial reserves. This finding confirms that financial knowledge significantly enhances an individual’s ability to adopt prudent saving habits.

- Regression analysis further established that financial literacy significantly influences saving behaviour, explaining a substantial proportion of variance in saving patterns. The statistically significant regression coefficient confirms that an increase in financial literacy leads to an improvement in saving behaviour. This finding underscores financial literacy as a key predictor of individual saving decisions.
- The analysis of spending behaviour indicated a moderate level of expenditure control among respondents. Although individuals showed awareness regarding expenditure management, impulsive buying tendencies and discretionary spending were still evident. This reflects the growing influence of consumerism and digital payment systems on spending behaviour.
- The correlation results revealed a significant negative relationship between financial literacy and spending behaviour, indicating that financially literate individuals tend to exercise better control over their spending. Higher levels of financial literacy were associated with reduced impulsive purchases and more rational consumption decisions.
- Regression analysis confirmed that financial literacy has a significant negative impact on spending behaviour. The negative beta coefficient signifies that as financial literacy increases, unnecessary and impulsive spending decreases. This demonstrates the protective role of financial literacy in preventing excessive consumption and financial mismanagement.
- The findings collectively suggest that financial literacy plays a dual role in shaping financial behaviour by encouraging positive saving habits and discouraging irrational spending patterns. Individuals with stronger financial knowledge exhibit greater financial self-discipline and long-term financial orientation.

- The study also highlights that financial literacy alone does not completely determine financial behaviour, as a portion of variation in saving and spending behaviour remains unexplained. This suggests the influence of other behavioural and socio-economic factors such as income level, self-control, financial attitudes, and lifestyle preferences.
- Overall, the findings emphasize the critical importance of financial literacy initiatives in promoting responsible financial behaviour. Improving financial literacy can lead to enhanced financial stability, reduced financial stress, and improved financial well-being among individuals.

VII. CONCLUSION

The present study examined the role of financial literacy in shaping individuals' saving and spending behaviour, with a particular focus on understanding how financial knowledge influences everyday financial decisions. The findings clearly indicate that financial literacy plays a significant and meaningful role in promoting responsible financial behaviour. Individuals with higher levels of financial literacy were found to exhibit better saving habits, including systematic saving, future-oriented financial planning, and improved financial discipline. This highlights the importance of financial knowledge in enabling individuals to allocate their income more effectively and prepare for long-term financial security.

The study also established that financial literacy has a significant negative influence on spending behaviour. Financially literate individuals were less likely to engage in impulsive or unnecessary spending and demonstrated greater control over their consumption patterns. This suggests that financial literacy not only encourages positive financial practices such as saving but also acts as a protective mechanism against excessive spending and poor financial decision-making. In an era of increasing digital transactions and easy access to credit, such control is crucial for maintaining financial stability.

Overall, the study concludes that financial literacy serves as a key determinant of sound financial behaviour by fostering saving discipline and regulating spending habits. While financial literacy significantly influences saving and spending behaviour, the findings also suggest that other factors

such as income, attitudes, and behavioural traits may further shape financial decisions. Therefore, enhancing financial literacy through targeted educational programmes and policy interventions can contribute to improved financial well-being, reduced financial stress, and sustainable personal financial management. The study underscores the need for continuous efforts to strengthen financial literacy as a foundation for long-term economic and individual financial stability.

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