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IMPACT OF FINANCIAL LITERACY ON PERSONAL SAVINGS AND BUDGETING HABITS

Uday Vats
Student

Department of Commerce, Dyal Singh College
University of Delhi

Abstract

Financial literacy is an important factor in determining saving and budgeting behaviour particularly in the dynamic Indian financial environment. Although more people have gained access to financial services, poor financial management is still evident among many people.

The research employs mixed-method design, which is based on literature review and primary data of 74 respondents to analyse the connection between financial literacy, budgeting, and saving behaviour. The results indicate that there is a strong positive correlation between financial literacy and saving as well as budgeting behaviours. Budgeting behaviour is also a mediating factor in enhancing saving discipline.

Nevertheless, financial limitations and financial surprises are barriers to proper financial management. The research highlights the importance of better financial education in order to enhance financial behaviour and general well-being.

Keywords: Financial Literacy, Budgeting Behaviour, Financial Behaviour, Financial Planning, Household Finance, Personal Savings, India

Introduction

In the modern complicated financial world, financial literacy is a key factor in defining the financial welfare and economic stability of individuals. It is the skill to comprehend and use financial knowledge in terms of saving, budgeting, investing and financial risk management. As financial markets, digital payment systems and financial products become increasingly complex, people need sufficient financial literacy to make the right decisions.

Financial inclusion in India has increased in some ways due to programs such as Jan Dhan Yojana and digital banking, but not necessarily into financial literacy. Most of the population is still unaware of the knowledge and skills needed to manage their finances effectively and thus they are poor in saving and budgeting.

Financial management is based on savings and budgeting, which are heavily dependent on financial literacy. The literature has shown that there is a positive correlation between financial literacy and responsible financial behaviour but there is still a gap between the knowledge and its application.

This paper will analyse how financial literacy influences saving and budgeting behaviour by integrating theoretical knowledge and empirical data as well as determining significant determinants of financial management.

Statement of the Problem

Financial literacy has become very important but a good number of people still show poor financial behaviour especially in saving and budgeting. Despite the increased access to financial services, there is a lack of knowledge and practical skills that restrict effective usage.

Ineffective or non-existent budgeting, inconsistent saving habits and weak or non-existent budgeting habits expose individuals to financial vulnerability. The major problem is that there is a discrepancy between financial knowledge and real life application that tends to be affected by behavioural biases, lack of discipline and external elements like income limitations and unforeseen costs.

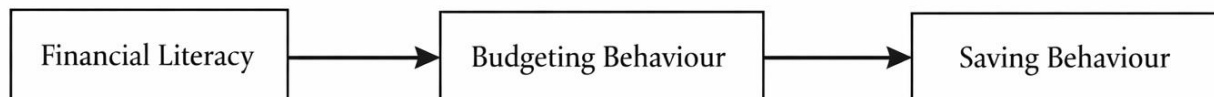
Current literature is mostly concerned with investment and debt, and little emphasis is made on budgeting behaviour and its interaction with financial literacy to influence savings.

Thus, the paper will focus on the connection between financial literacy, savings and budgeting behaviour and determine the main factors that determine effective financial management.

Objectives of the Study

The present study aims to achieve the following objectives:

1. To examine the level of financial literacy among individuals.
2. To analyse the impact of financial literacy on personal savings behaviour.
3. To study the relationship between financial literacy and budgeting habits.
4. To evaluate the role of budgeting behaviour in improving savings.



Scope of the Study

The study is narrowed down to the knowledge of the effects of financial literacy on personal savings and budgeting behaviour among people, and the focus is on the Indian context. The research incorporates the respondents of various ages, income, and education levels.

The study is founded on secondary (literature review) and primary data gathered with the help of a questionnaire. I targeted variables such as financial knowledge, saving behaviour, budgeting practices, and financial discipline.

The research, however, does not discuss investment behaviour, credit use, and other sophisticated financial choices in detail. The results are limited to a small sample and cannot be entirely applied to the whole population.

Research Questions

The study is guided by the following research questions:

1. What is the level of financial literacy among individuals?
2. How does financial literacy influence personal savings behaviour?
3. What is the relationship between financial literacy and budgeting habits?
4. How does budgeting behaviour affect saving practices?
5. What are the key barriers to effective financial management?

Hypothesis

The following hypotheses have been formulated for the study:

- **H1:** Financial literacy has a significant positive impact on personal savings behaviour.
- **H2:** Financial literacy has a significant positive impact on budgeting habits.
- **H3:** Budgeting behaviour positively influences savings behaviour.
- **H4:** Lack of financial literacy negatively affects financial decision-making.

Literature Review

Financial literacy and financial behaviour literature has grown tremendously in the last twenty years. Scholars have investigated how financial knowledge can affect saving behaviour, budgeting behaviour, and general financial decision-making. This part provides a discussion of theoretical and empirical research on the subject.

Theoretical Perspective on Financial Literacy

The financial literacy has been widely accepted as a basic part of individual financial management. Lusardi and Mitchell (2014) define financial literacy as the capacity to process economic information and make sound decisions regarding financial planning, wealth accumulation, and debt management. The more financially literate an individual is, the more they are able to learn about financial risks and opportunities and this increases their capacity to manage financial resources.

According to the theory of planned behaviour, the financial behaviour of individuals is determined by their attitudes, knowledge and their perceived control on financial behaviour. Financial literacy is relevant in influencing these factors because it enhances confidence and financial management capability of individuals.

The other significant theoretical approach is the behavioural finance which emphasises that people do not make rational decisions because of psychological biases like overconfidence, present bias and loss of self-control. Financial literacy can be used to minimize these biases by giving people the knowledge they need to make more rational financial choices.

Financial Literacy and Savings Behaviour

Many studies have found a close correlation between saving behaviour and financial literacy. Hilgert, Hogarth, and Beverly (2003) discovered that the more financially knowledgeable people are, the more they are likely to have positive financial behaviours, such as saving on a regular basis and having emergency funds.

Lusardi (2008) pointed out that retirement planning and long-term savings depend on financial literacy. People who have a higher level of financial literacy tend to be more future oriented and accumulate wealth in the long run. In a similar manner, Atkinson and Messy (2012) emphasized that financial literacy enhances the capacity of individuals to save and spend financial resources in an effective manner.

Agarwalla et al. (2015) in the Indian context discovered that the level of financial literacy among young adults is comparatively low, which has an adverse impact on their saving behaviour. The research proposed that financial education could be a major way of improving saving behaviour among the people.

In general, the literature shows a consistent positive effect of financial literacy on the savings behaviour. The degree of this influence, however, differs among the various demographic groups and economic conditions.

Financial Literacy and Budgeting Behaviour

Although savings behaviour has been widely researched, budgeting behaviour has not been given much attention. Budgeting is a vital financial planning tool because it assists people to effectively use their income and manage expenditure.

Xiao and O'Neill (2016) emphasized that those who adhere to budgeting tendencies have higher chances of attaining financial stability. Budgeting enables one to monitor expenditure, unwarranted expenditure, and spend on savings.

Research has also revealed that financial literacy can strengthen budgeting behaviour by increasing the knowledge of the people in terms of income management and expenditure planning. More financially knowledgeable people tend to make budgets and follow them regularly.

Nonetheless, certain research indicates that even financially literate people might not adhere to budgeting behaviours because of behavioural influences like inability to be disciplined, impulsive purchases, and peer pressure. This implies that financial literacy is not necessarily enough to guarantee effective budgeting behaviour.

Relationship between Budgeting and Saving

Budgeting and saving are two concepts that are closely related. Budgeting is a tool that helps in saving money through regulating spending and effective distribution of income.

Research has established that people with budgets tend to save frequently and attain their financial objectives. Budgeting enables people to determine excess funds that can be channelled to savings.

In addition, budgeting also lowers financial stress and enhances financial discipline, which also contributes to saving behaviour. Nevertheless, the success of budgeting is determined by the personal dedication and adherence to the budget.

Factors Influencing Financial Behaviour

A combination of demographic, psychological and economic factors affect financial behaviour. Key factors include:

- **Income Level:** The more income individuals are, the more they tend to save and make good budgets.
- **Education:** Education enhances financial knowledge and results in improved financial decisions.
- **Age:** Young people might lack financial discipline as compared to older people.
- **Behavioural Factors:** Financial behaviour can be adversely influenced by impulse buying, lack of self-control and peer pressure.

Empirical Evidence from Previous Studies

Empirical studies have consistently supported the positive relationship between financial literacy and financial behaviour. For instance:

- Hilgert et al. (2003) found a strong association between financial knowledge and financial practices.
- Lusardi and Mitchell (2014) emphasized the role of financial literacy in wealth accumulation and financial planning.
- Agarwalla et al. (2015) highlighted the low levels of financial literacy in India and its impact on financial behaviour.
- OECD (2016) reported that financial literacy improves financial decision-making and economic well-being.

These studies provide strong evidence that financial literacy is a key determinant of financial behaviour.

Research Gaps Identified from Literature Review

Based on the review of existing literature, the following research gaps have been identified:

1. Limited Focus on Budgeting Behaviour

Most studies have primarily focused on savings, investment, or debt management, while budgeting behaviour has received relatively less attention. Budgeting is often treated as a secondary variable rather than being analysed independently. This limits the understanding of how financial literacy influences day-to-day financial management.

2. Over-Reliance on Cross-Sectional Studies

A large number of studies are based on cross-sectional data, which provides only a snapshot of financial behaviour at a particular point in time. Such studies are unable to capture changes in financial behaviour over time or establish causal relationships.

3. Lack of Longitudinal Studies

There is a lack of longitudinal research that tracks individuals' financial behaviour over time. Long-term studies are necessary to understand how financial literacy influences financial habits such as saving and budgeting in the long run.

4. Urban-Centric Research

Most existing studies are concentrated in urban areas, with limited focus on rural and semi-urban populations. This creates a gap in understanding financial behaviour across different socio-economic contexts, particularly in developing countries like India.

5. Limited Evaluation of Financial Literacy Programs

There is insufficient research on the effectiveness of financial literacy programs in improving financial behaviour. Most studies focus on measuring financial literacy levels rather than evaluating the impact of educational interventions.

6. Gap Between Knowledge and Behaviour

While financial literacy is associated with better financial behaviour, there is still a gap between knowledge and its practical application. Individuals may possess financial knowledge but fail to implement it due to behavioural or external factors.

Research Methodology

This study adopts a **quantitative research approach** supported by a structured survey to examine the impact of financial literacy on personal savings and budgeting habits. The methodology is designed to ensure systematic data collection, analysis, and interpretation of results.

Research Design

The research follows a **descriptive and analytical design**. The descriptive aspect focuses on understanding the level of financial literacy and financial behaviour among individuals, while the analytical aspect examines the relationship between financial literacy, savings, and budgeting habits.

The study combines both **primary data** and **secondary data**:

- **Primary data** is collected through a structured questionnaire.
- **Secondary data** is obtained from existing literature, including research papers, reports, and academic journals.

Data Collection Method

The primary data for the study was collected using a **structured questionnaire** designed to capture responses related to financial literacy, budgeting behaviour, and saving habits.

The questionnaire was distributed through **online platforms (Google Forms)**, making it accessible to a diverse group of respondents. The use of online surveys ensured quick data collection and ease of response.

Sampling Technique

The study uses a **convenience sampling method**, where respondents were selected based on accessibility and willingness to participate.

Although this method does not ensure complete randomness, it is commonly used in academic research due to time and resource constraints.

Sample Size

A total of **74 respondents** were included in the study. The sample consists of individuals from different age groups, educational backgrounds, and income levels, ensuring diversity in responses.

Variables of the Study

Independent Variable

- Financial Literacy

Dependent Variables

- Personal Savings Behaviour
- Budgeting Habits

Control Variables

- Age
- Gender
- Income
- Education

Tools and Techniques Used

The following tools and techniques were used for data analysis:

- Descriptive statistics (mean, percentages)
- Tabular analysis
- Correlation analysis (to examine relationships between variables)

Microsoft Excel was used for organizing and analysing the data.

Data Analysis and Interpretation

Demographic Analysis

The demographic profile of respondents provides insights into the characteristics of the sample.

- Majority of respondents belong to the **18–25 age group**, indicating a young sample.
- Gender distribution is relatively balanced, ensuring diverse perspectives.
- Most respondents are **undergraduates**, indicating moderate educational exposure.
- Income levels vary, with a significant portion in the lower income group (students).

This diversity ensures that the study captures a wide range of financial behaviours.

Age Distribution of Respondents

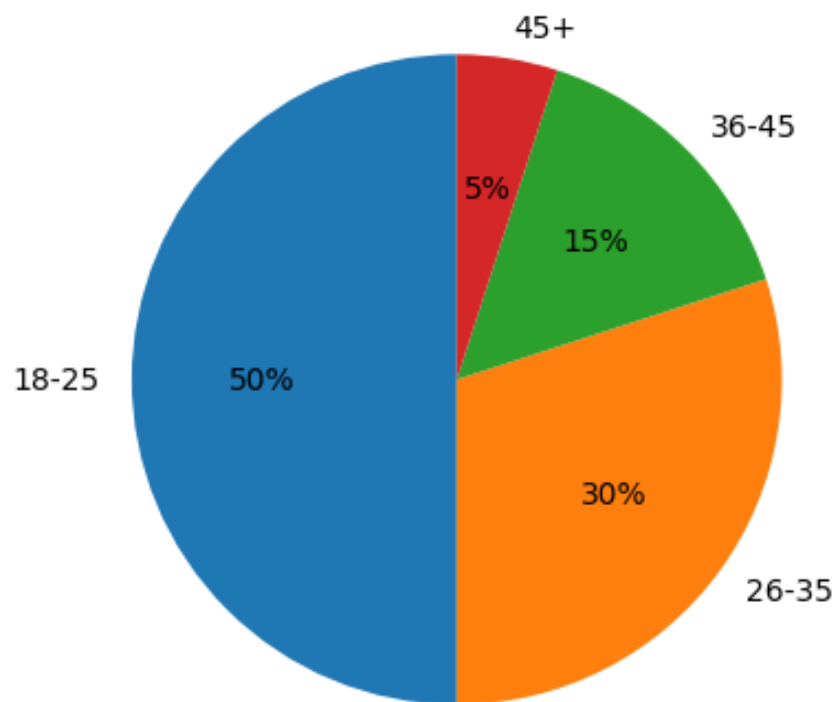


Figure 1: Age Distribution of Respondents

Analysis of Financial Literacy

The responses indicate that a majority of individuals have **moderate to high financial literacy**. Most respondents agree that they understand basic financial concepts such as savings, interest, and financial planning.

Average Scores of Key Variables

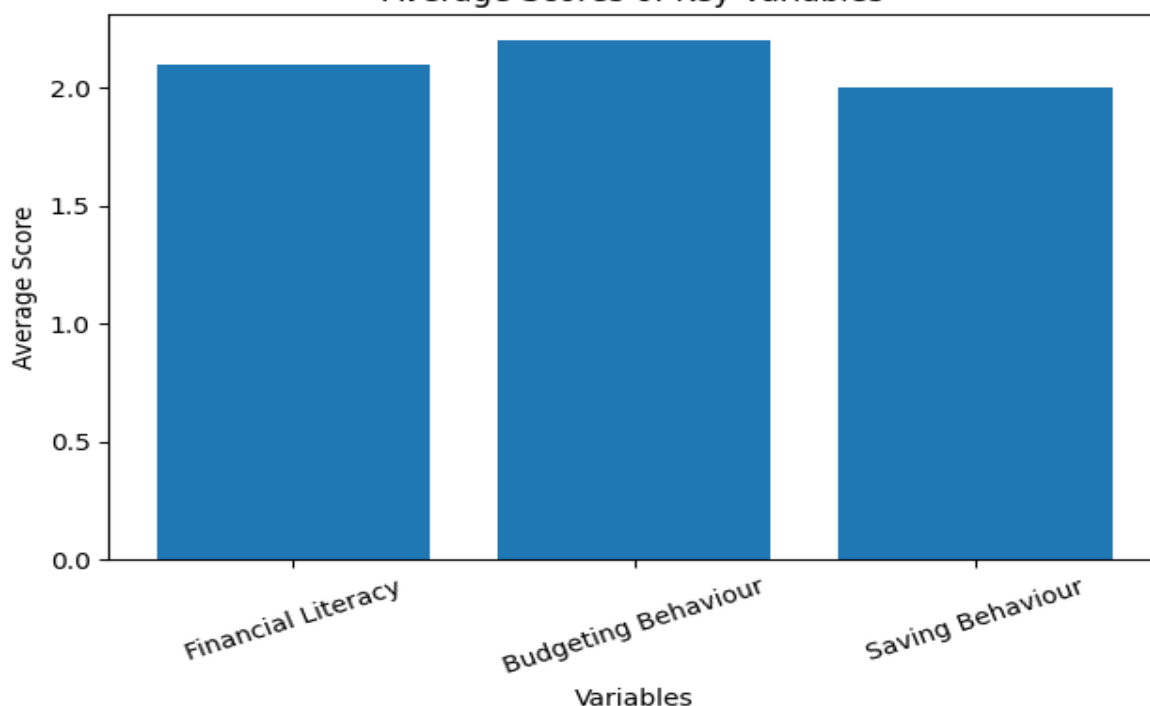


Figure 2: Average Scores of Financial Literacy, Budgeting, and Saving Behaviour

However, some respondents show neutral responses, indicating that financial knowledge is not uniformly strong across all individuals.

Analysis of Budgeting Behaviour

The results show that:

- Many respondents prepare budgets occasionally.
- Expense tracking is practiced by a significant number of individuals.
- However, consistency in following budgets is relatively lower.

This suggests that while individuals are aware of budgeting, they may not consistently apply it in practice.

Analysis of Saving Behaviour

The findings indicate that:

- Most respondents have a habit of saving.
- A significant number maintain savings for future needs.
- However, not all respondents have structured saving plans or emergency funds.

This highlights the importance of financial discipline in improving saving behaviour.

Correlation Analysis

The correlation analysis reveals important relationships between variables:

- **Financial Literacy and Savings:** Strong positive relationship
- **Financial Literacy and Budgeting:** Strong positive relationship
- **Budgeting and Savings:** Weak positive relationship

This indicates that financial literacy plays a key role in improving both saving and budgeting habits.

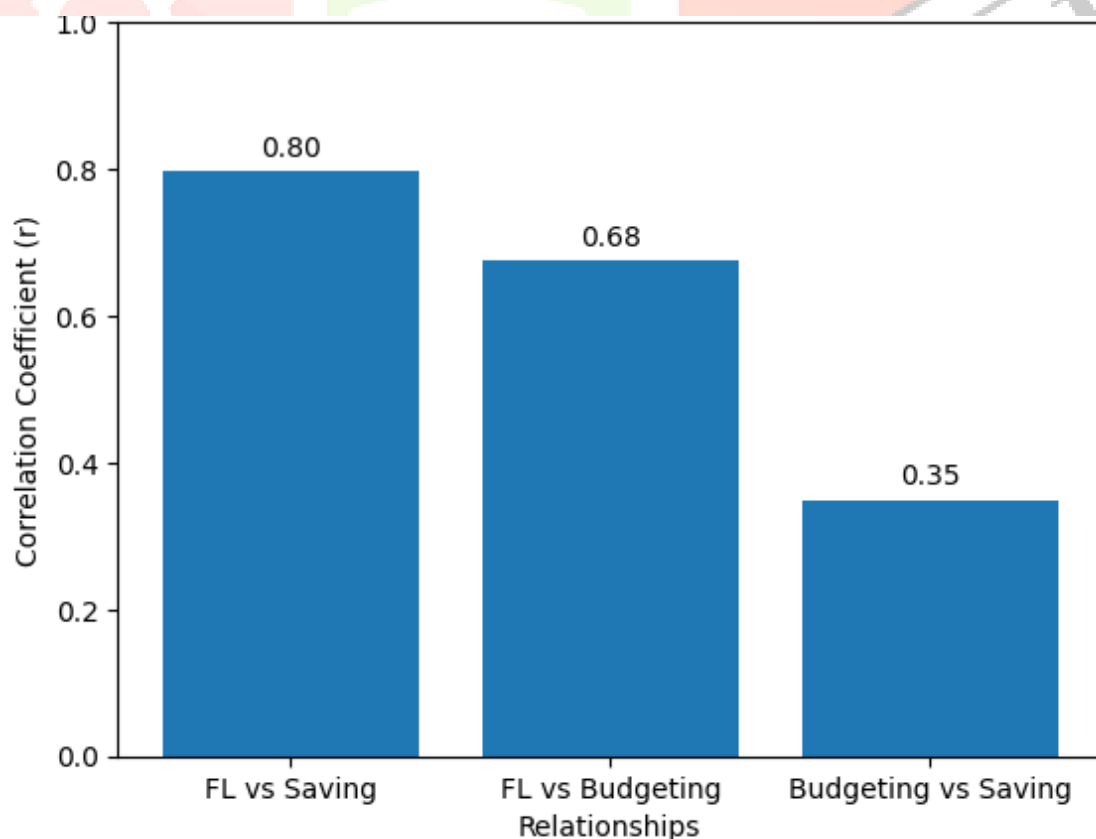


Figure 3: Correlation between Financial Literacy, Budgeting, and Savings

Variables	r
Financial Literacy & Saving Behaviour	+0.7963
Financial Literacy & Budgeting Behaviour	+0.6763
Budgeting Behaviour & Saving Behaviour	+0.3495

Note: r represents the correlation coefficient indicating the strength and direction of relationship between variables.

Findings of the Study

The results of the research are presented in accordance with the objectives and hypotheses of the research that were developed previously. As the analysis shows, there is a strong positive correlation between financial literacy and saving behaviour ($r = 0.7963$), which means that financially literate people have higher chances of saving on a regular basis, holding emergency funds, and planning to meet financial requirements in the future. In this way, H1 is upheld. In a similar manner, financial literacy and budgeting behaviour have a strong positive correlation ($r = 0.6763$), implying that more financially aware people would prepare budgets, monitor spending, and demonstrate financial discipline. Therefore, H2 is supported. The correlation between budgeting behaviour and saving behaviour is positive but relatively less strong ($r = 0.3495$) which means that budgeting behaviour has some influence in enhancing savings but not as much as financial literacy. Thus, H3 is partly justified. Moreover, the findings suggest that poor financial literacy contributes to inconsistency in financial behaviour, ineffective saving behaviour, and ineffective budgeting behaviour. H4 was supported by the fact that respondents who had poor financial knowledge were more prone to financial problems and unexpected costs. All in all, the paper affirms that financial literacy is a major predictor of financial behaviour and it has a direct impact on saving and budgeting behaviour and an indirect impact on financial discipline by improving better planning and decision making. Nevertheless, there are still external influences like income restrictions and behavioural biases that restrict the successful use of financial knowledge.

Limitations of the Study

Despite providing valuable insights, the study has certain limitations:

1. The study is based on a relatively **small sample size (74 respondents)**, which may limit the applicability of the findings.
2. The use of **convenience sampling** may introduce bias, as respondents are selected based on accessibility.
3. The data is based on **self-reported responses**, which may not always reflect actual financial behaviour.
4. The study focuses primarily on savings and budgeting and does not cover other aspects such as investment behaviour or credit usage.
5. The analysis is limited to a **cross-sectional approach**, which does not capture changes in financial behaviour over time.

Conclusion

The research investigated the effects of financial literacy on individual savings and budgeting behavior through the synthesis of theoretical and empirical evidence. The results have shown clearly that financial literacy is a key factor that determines the individual financial behaviour and enhances the financial management practices.

The research confirms that more financially literate people tend to have more responsible financial behaviour such as saving regularly, budgeting, and financial planning. Financial literacy helps people to make better decisions, spend resources wisely and be financially disciplined.

The study however also points out that financial literacy is not enough to guarantee effective financial behaviour. Financial knowledge and its application are separated. Financial management is usually

hampered by behavioural issues like absence of discipline, spending impulsively and external influences like income restriction and unforeseen costs.

Budgeting behaviour is also a significant mechanism that enhances saving behaviour. Those who adhere to systematic budgeting can manage spending better and spend money on savings. This means that financial literacy and budgeting in combination with each other play a significant role in enhancing financial performance.

In general, the research highlights the necessity of enhancing financial literacy and its real-life implementation. Enhancing financial literacy is associated with improved financial behaviour, greater savings and financial well-being at both personal and societal levels.

Appendices:

Questionnaire

Section A: Demographic Details

1. Age
☐ 18–25 ☐ 26–35 ☐ 36–45 ☐ Above 45
2. Gender
☐ Male ☐ Female ☐ Other
3. Educational Qualification
☐ High School ☐ Undergraduate ☐ Postgraduate ☐ Professional Qualification
4. Monthly Income
☐ Below ₹20,000 ☐ ₹20,001–₹50,000 ☐ ₹50,001–₹1,00,000 ☐ Above ₹1,00,000

Response Scale (Applicable to Sections B, C, D & E)

Scale	Response Option
1	Strongly Agree
2	Agree
3	Neutral
4	Disagree
5	Strongly Disagree

Section B: Financial Literacy

1. I understand basic financial concepts such as saving and budgeting.
2. I am aware of how interest rates work.
3. I understand the importance of financial planning.
4. I am confident in managing my personal finances.
5. I have knowledge about financial products such as savings accounts and investments.

Section C: Budgeting Behaviour

1. I prepare a monthly budget.
2. I track my expenses regularly.
3. I follow my budget consistently.
4. I avoid unnecessary expenses.
5. I allocate my income effectively across different needs.

Section D: Saving Behaviour

1. I save a portion of my income regularly.
2. I maintain savings for future needs.
3. I have an emergency fund.
4. I set financial goals for saving.

5. I prioritize saving over unnecessary spending.

Section E: Impact of Financial Literacy

1. Financial literacy helps me manage my money better.
2. Financial knowledge improves my saving habits.
3. Financial literacy encourages better budgeting.
4. Financial knowledge helps in making better financial decisions.

Section F: Barriers to Financial Management

1. Low income affects my ability to save.
2. Unexpected expenses reduce my savings.
3. Lack of financial discipline affects my budgeting.
4. I find it difficult to apply financial knowledge in real life.

Link for Questionnaire - <https://forms.gle/34jBGXbykAqaqNUJ6>

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