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Financial Literacy and Household Saving Behavior in Algeria: A Theoretical and Literature-Based Analysis of Financial Decision-Making.

الثقافة المالية وسلوك الادخار لدى الأسر في الجزائر: تحليل نظري قائم على الأدبيات لعملية اتخاذ القرارات المالية.

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Abstract: Financial literacy plays an important role in shaping household financial behavior and improving financial decision-making. This study examines the relationship between financial literacy and household saving behavior in Algeria through a theoretical and literature-based analysis. It reviews major theoretical approaches to household saving and synthesizes previous findings on financial literacy, saving behavior, and financial inclusion. The analysis also considers the Algerian financial context, including formal and informal saving practices, access to financial services, and digital financial services. The findings suggest that financial literacy supports better financial planning and informed saving decisions, while its effects depend on income, employment, financial access, and institutional conditions.

Key words: Financial Literacy; Household Saving; Financial Decision-Making; Financial Behavior; Algeria.
JEL classification codes: D14; D91; G51; I22; C25.

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1. Introduction :

Financial literacy has become an increasingly important component of household financial decision-making. The growing complexity of financial products, the expansion of digital financial services, and the increasing need for households to manage financial risks have strengthened the importance of individuals' ability to understand and use financial information. Financial literacy is not limited to knowledge of financial concepts; it also involves the ability to apply this knowledge to budgeting, saving, borrowing, financial planning, and the management of financial risks (OECD, 2020). In this sense, financial literacy can influence the way households allocate their limited financial resources between current consumption and future needs.

Household saving represents an important dimension of financial decision-making because it allows individuals to prepare for future expenditures, accumulate wealth, and protect themselves against unexpected financial shocks. Saving decisions are influenced by several factors, including household income, consumption needs, expectations concerning future economic conditions, demographic characteristics, financial attitudes, and access to financial services. Financial literacy may constitute an additional factor by improving households' capacity to evaluate financial alternatives and make decisions consistent with their long-term objectives (Lusardi & Mitchell, 2014).

The relationship between financial literacy and saving behavior is particularly relevant in developing and emerging economies, where households may face financial constraints, limited access to formal financial services, and changing financial environments. Financial knowledge can help individuals understand concepts such as interest rates, inflation, risk diversification, and the future value of money. At the same time, knowledge alone may not be sufficient to generate saving, since households must also possess adequate financial resources and appropriate financial opportunities.

Previous research has generally emphasized the positive role of financial literacy in improving financial planning, saving behavior, and the quality of financial decisions, while also highlighting the importance of socioeconomic and institutional conditions.

Algeria provides a relevant context for examining this relationship. The Algerian household sector operates within an economic and financial environment characterized by changing consumption patterns, increasing access to banking and digital financial services, and the gradual development of financial inclusion. Household financial decisions may be influenced by income levels, employment conditions, age, education, family characteristics, financial attitudes, and access to financial information. Examining financial literacy in this context can therefore provide useful insights into household saving behavior and financial decision-making.

The importance of this issue has also increased with the development of digitalization in the financial sector. The expansion of electronic payment systems, mobile financial services, online banking, and other digital financial tools provides households with new opportunities to manage their money. However, access to financial services does not necessarily imply the ability to use them effectively. Financial inclusion and financial literacy are therefore complementary dimensions: individuals may have access to financial products while lacking the knowledge required to evaluate their costs, risks, and benefits. This makes financial literacy particularly relevant to household financial decision-making.

Against this background, the present study examines the relationship between financial literacy and household saving behavior in Algeria through a theoretical and literature-based approach. It draws on established theories of household saving and financial decision-making, previous academic research on financial literacy, and secondary information concerning the Algerian financial context. The analysis focuses on the mechanisms through which financial literacy may influence saving behavior and examines the interaction between financial knowledge, financial capacity, financial inclusion, financial attitudes, and household economic conditions.

The main research problem addressed in this study is the following:

To what extent can financial literacy contribute to improving household saving behavior in Algeria, and how is this relationship conditioned by household economic and financial circumstances?

This question is particularly relevant because financial literacy may improve households' ability to plan, evaluate financial alternatives, and manage risks, but its potential effects may be limited by insufficient income, employment conditions, restricted access to financial services, and other institutional factors.

Accordingly, the study has three main objectives. First, it aims to examine the major theoretical approaches linking financial literacy to household saving behavior and financial decision-making. Second, it seeks to synthesize previous research on financial literacy, saving behavior, and financial inclusion. Third, it aims to analyze the relevance of these relationships within the Algerian financial context and to identify the main factors that may strengthen or limit the contribution of financial literacy to household saving behavior. Based on the theoretical foundations and previous literature, the study proposes the following assumptions.

H1: Higher levels of financial literacy are generally expected to be associated with more informed and sustainable household saving behavior.

H2: The influence of financial literacy on saving behavior is conditioned by household income, employment conditions, access to financial services, and financial attitudes.

H3: Financial inclusion and digital financial literacy can strengthen the positive contribution of financial literacy to household saving behavior.

The study is important from both theoretical and practical perspectives. From a theoretical perspective, it brings together major approaches to household saving and financial literacy in order to clarify the mechanisms through which financial knowledge, attitudes, and behavior may influence financial decisions.

From a practical perspective, the study provides insights into the Algerian context and highlights the importance of financial education, financial inclusion, and household financial resilience.

Methodologically, the study does not seek to establish a statistical causal relationship through a primary household survey or econometric estimation. Instead, it provides a synthesis of theoretical contributions and previous research and uses available secondary evidence to interpret the Algerian context.

This theoretical and literature-based approach makes it possible to examine financial literacy as an enabling factor in household saving behavior while recognizing the importance of income, economic conditions, access to financial services, and individual financial preferences.

The remainder of the article is organized as follows. Section 2 presents the literature review and theoretical foundations of household saving and financial decision-making. Section 3 develops the theoretical framework linking financial literacy to household saving behavior. Section 4 discusses the Algerian context and synthesizes the main implications of the literature for household saving. Section 5 discusses policy implications for Algeria. Finally, Section 6 concludes the study and outlines directions for future research.

2. Literature review and theoretical framework:

2.1. Financial Literacy:

Financial literacy refers to the knowledge and skills that enable individuals to understand financial concepts and make appropriate financial decisions. It includes the ability to manage income and expenditure, evaluate financial alternatives, understand risk and return, plan for the future, and make informed decisions concerning saving, borrowing, and investment (Atkinson & Messy, 2012).

Financial literacy is generally multidimensional. It includes objective financial knowledge, financial attitudes, and financial behavior. Objective knowledge concerns concepts such as interest rates, inflation, compound interest, risk, and diversification. Financial attitudes refer to individuals' preferences concerning saving, consumption, risk, and future financial security, while financial behavior is reflected in practical actions such as budgeting, regular saving, expenditure control, and financial planning.

Lusardi and Mitchell (2014) emphasize that financial knowledge can be viewed as a form of human capital that affects economic decision-making. Their review of the literature shows that financial literacy is associated with important household financial decisions, including saving, retirement planning, and wealth accumulation.

2.2. Household Saving Behavior:

Household saving corresponds to resources that are set aside rather than used for current consumption. These resources may be held in bank accounts, retained as cash, invested in financial assets, or accumulated through other forms of wealth.

At the household level, saving serves several purposes. It enables households to prepare for future expenditures, cope with unexpected financial shocks, finance education or housing, prepare for retirement, and reduce dependence on borrowing.

Saving behavior is influenced by several economic and demographic factors. Income is an important determinant because households with greater disposable resources generally have a higher capacity to save. However, saving decisions are not determined by income alone. Age, education, employment conditions, household characteristics, expectations concerning future income, risk preferences, and financial knowledge may also influence saving behavior.

This provides an important justification for examining financial literacy as a determinant of saving behavior (Deaton, 1992; Alessie et al., 2011).

2.3. Financial Decision-Making:

Household financial decision-making refers to the process through which individuals determine how to allocate their financial resources among consumption, saving, borrowing, investment, and risk management.

Traditional economic approaches generally assume that individuals make rational decisions based on available information. However, behavioral approaches emphasize that financial decisions can also be affected by limited information, present-oriented preferences, self-control problems, and psychological biases.

Financial literacy may reduce some of these difficulties by improving individuals' ability to understand and process financial information.

Financial literacy is therefore expected to influence not only whether households save, but also the quality and consistency of their financial decisions.

2.4. Theoretical Foundations:

The relationship between financial literacy and household saving behavior can be explained through several complementary theoretical perspectives.

a. Life-Cycle Theory:

The life-cycle hypothesis developed by Modigliani and Brumberg (1954) explains saving and consumption decisions according to the different stages of an individual's lifetime. Individuals are expected to save during periods of relatively high income in order to finance consumption when income declines, particularly during retirement.

Financial literacy can complement the life-cycle approach by improving individuals' ability to plan for future financial needs and allocate resources over time.

b. Permanent Income Theory:

Friedman's (1957) permanent income hypothesis argues that consumption decisions depend largely on expected long-term income rather than temporary income fluctuations.

Financial literacy may improve households' ability to distinguish between temporary and permanent changes in income and consequently support more appropriate saving decisions.

c. Behavioral Life-Cycle Theory:

The behavioral life-cycle approach of Shefrin and Thaler (1988) introduces psychological factors into the analysis of saving. Individuals may experience self-control problems and may prefer immediate consumption over future benefits.

From this perspective, financial knowledge and financial planning may help households recognize the long-term consequences of current consumption decisions and encourage them to establish more systematic saving practices.

d. Theory of Planned Behavior:

The Theory of Planned Behavior developed by Ajzen (1991) provides an additional behavioral explanation. Applied to household

saving, individuals who have positive attitudes toward saving and believe that they are capable of controlling their financial behavior are more likely to develop saving intentions and translate them into actual saving practices.

3. Theoretical Framework: Financial Literacy and Household Saving Behavior:

3.1. Concept and Dimensions of Financial Literacy:

Financial literacy refers to the combination of financial knowledge, skills, attitudes, and behaviors that enables individuals to make informed decisions concerning the management of their financial resources. The OECD/INFE framework emphasizes that financial literacy should not be reduced to financial knowledge alone, since financial behavior and attitudes also influence individuals' financial well-being. (OECD, 2020)

Financial knowledge constitutes the cognitive component of financial literacy. It involves understanding concepts such as interest rates, inflation, risk diversification, compound interest, and the relationship between present and future financial resources.

The behavioral dimension concerns the practical management of financial resources. It includes budgeting, monitoring expenditures, avoiding excessive borrowing, maintaining emergency savings, and planning for future financial needs.

The attitudinal dimension reflects individuals' preferences toward financial planning, delayed gratification, risk, and future-oriented decision-making. Consequently, financial literacy can influence saving not only through knowledge but also through the development of responsible financial attitudes and behaviors.

3.2. Household Saving Behavior:

Saving can be viewed as the share of household resources reserved for future use instead of immediate consumption. It allows families to spread consumption across time, build wealth, meet anticipated expenses, and create a financial buffer against unexpected shocks.

From a theoretical perspective, household saving decisions are influenced by several factors, including income, consumption needs, expectations concerning future income, demographic characteristics, financial conditions, and preferences regarding present versus future

consumption. Saving may therefore have different motivations. Households may save for precautionary purposes, retirement, education, housing, investment, major purchases, or unexpected emergencies.

3.3. The Relationship Between Financial Literacy and Saving Behavior:

The theoretical relationship between financial literacy and saving behavior can be explained through several mechanisms. First, financial literacy improves individuals' ability to understand the opportunity cost of current consumption.

Households with greater financial knowledge are better positioned to prepare budgets, establish financial objectives, monitor expenditures, and determine an appropriate level of precautionary savings.

Individuals who understand interest rates, inflation, risk, and financial returns are better able to compare saving alternatives and identify products that correspond to their needs.

For example, OECD evidence indicates that higher financial literacy is associated with a greater likelihood of saving, even after accounting for several individual characteristics. (OECD, 2020; Klapper et al., 2013).

However, financial literacy should not be considered the only determinant of household saving.Similarly, inflation, unemployment, financial access, household size, and economic uncertainty may affect saving decisions independently of financial knowledge.

3.4. Theoretical Mechanisms Linking Financial Literacy to Financial Decision-Making:

The relationship between financial literacy and household financial decision-making can be summarized through four main mechanisms.

First, the planning mechanism. Financial literacy encourages households to establish financial objectives and organize their available resources according to short-, medium-, and long-term priorities.

Second, the information mechanism. Financially literate individuals are more capable of collecting and interpreting information about financial products.

Third, the risk-management mechanism. Knowledge of financial risks may encourage households to maintain precautionary savings and avoid excessive exposure to financial shocks.

Fourth, the behavioral mechanism. Financial literacy may influence attitudes toward delayed gratification and future financial needs.

These mechanisms suggest that financial literacy operates as an enabling factor rather than as an automatic determinant of saving.

3.5. Relevance to the Algerian Context:

The theoretical relationship between financial literacy and saving behavior is particularly relevant to Algeria. Financial knowledge and the ability to evaluate financial alternatives remain important components of responsible financial participation.

World Bank data provide country-level evidence on financial inclusion in Algeria, while the Global Findex 2021 includes indicators related to saving, borrowing, payments, financial resilience, and the use of digital financial services. (World Bank, 2022a, 2022b)

The Algerian context therefore highlights the importance of considering financial literacy together with financial inclusion. Conversely, greater financial literacy may increase the ability of households to use available financial services more effectively. (World Bank, 2022a, 2022b)

Conversely, greater financial literacy may increase the ability of households to use available financial services more effectively. (World Bank, 2022a, 2022b). This integrated perspective provides the theoretical basis for examining how financial literacy may contribute to more informed and sustainable household financial decision-making.

4. Financial Literacy and Household Saving Behavior in Algeria:

4.1. The Algerian Context of Household Saving:

The structure of the Algerian economy also plays an important role in shaping household financial behavior.

The significant contribution of hydrocarbons to national income and public revenues has historically exposed the Algerian economy to fluctuations in international oil prices.

Changes in economic conditions can affect employment opportunities, household income, purchasing power, and expectations regarding future economic conditions. In periods of economic uncertainty, households may increase precautionary saving, while periods of rising prices and declining purchasing power may reduce their capacity to save. (Banque d'Algérie, 2024)

The banking system constitutes the principal formal channel through which household savings can be mobilized. Consequently, financial literacy can be considered an important factor in explaining differences in saving behavior among households. (Banque d'Algérie, 2024)

4.2. Income, Consumption and Household Saving:

Income remains one of the fundamental determinants of household saving. According to the life-cycle perspective, households adjust their saving and consumption decisions according to their current income, expected future income, and stage of life. Households with higher and more stable incomes generally have greater capacity to save because they can satisfy current consumption needs while allocating part of their disposable income to future objectives. (Deaton, 1992; Modigliani & Brumberg, 1954)

Households with limited incomes may be unable to save regularly because most of their resources are allocated to essential consumption. Rising living costs can further reduce their saving capacity. Consequently, the ability to save depends not only on financial preferences but also on the level and stability of disposable income.

When inflation increases faster than household income, families may reduce their savings or use previously accumulated savings to finance consumption. Conversely, stable income and improved purchasing power can create greater opportunities for regular saving. (Banque *d'Algérie*, 2024). Financial literacy can moderate this relationship by helping households manage limited resources more efficiently.

4.3. Inflation, Economic Uncertainty and Precautionary Saving:

Persistent increases in prices reduce the real purchasing power of money and can affect households' willingness to hold savings in conventional monetary forms. When individuals expect prices to increase, they may prefer to spend their income on goods and services rather than hold cash balances that lose purchasing power.

Households may accumulate financial resources to protect themselves against unexpected events such as unemployment, income reductions, health expenditures, or other financial shocks. This behavior reflects the precautionary saving motive identified in economic theory.

Economic uncertainty, employment conditions, inflationary pressures, and changes in household purchasing power may influence expectations about future income and expenditures.

Financial literacy may improve the effectiveness of precautionary saving by encouraging households to establish emergency funds and select appropriate saving instruments.

4.4. Analytical Synthesis :

Income and purchasing power determine the household's basic saving capacity, while inflation and economic uncertainty influence saving incentives and expectations. Access to financial services determines the availability of formal saving opportunities, whereas social and cultural factors shape preferences for different saving mechanisms.

Within this framework, financial literacy represents a transversal factor that can influence several dimensions of household financial decision-making.

Therefore, the relationship between financial literacy and household saving should be understood as multidimensional. Financial literacy may affect not only the **amount** households save but also the **regularity, purpose, instrument, and risk profile** of their saving decisions.

5. Discussion and Policy Implications for Algeria:

5.1. Financial Literacy and Financial Resilience：

An important implication of the literature is the relationship between saving and financial resilience. Household savings can provide a buffer against unexpected events such as temporary income losses, unemployment, emergency expenditures, or other economic shocks. Financial literacy can contribute to this resilience by encouraging households to anticipate potential risks and maintain appropriate precautionary reserves.

The Global Findex framework provides useful indicators for examining financial resilience, including the ways individuals would obtain funds in response to an emergency financial need. (World Bank, 2022a, 2022b)

From this perspective, promoting financial literacy should involve teaching households not only how to save but also why precautionary savings are important.

5.2. Implications for Financial Education in Algeria:

Such education should extend beyond theoretical knowledge of financial concepts and focus on practical skills that can be applied to everyday household decisions.

Financial education programs could emphasize several areas: household budgeting, regular saving, understanding interest and inflation, responsible borrowing, financial risk management, digital financial services, and long-term financial planning.

Educational initiatives could also be introduced progressively through schools, universities, workplaces, banking institutions, and digital platforms.

5.3. Strengthening Financial Inclusion and Access to Saving Instruments:

Financial literacy is more likely to influence household behavior when individuals have access to appropriate and understandable financial products. Consequently, financial education policies should be accompanied by measures aimed at strengthening financial inclusion.

Banks and other financial institutions can contribute by making saving products easier to understand, improving transparency concerning fees and conditions, and developing products adapted to different household needs and income levels.

Improving access without improving financial capabilities may result in underutilization or inappropriate use of financial services. Conversely, increasing financial knowledge without improving access may limit the practical application of that knowledge.

5.4. Policy Recommendations:

Based on the theoretical framework and literature reviewed in this study, several policy implications can be identified for Algeria.

First, financial education should be integrated more systematically into educational programs.

Second, financial institutions should strengthen financial awareness initiatives.

Third, financial education should increasingly incorporate digital financial literacy.

Fourth, policies should encourage precautionary saving.

Fifth, financial inclusion and financial literacy should be addressed jointly.

Finally, financial literacy policies should take into account differences in household income, age, education, employment, and access to financial services.

6. Conclusion:

Financial literacy plays an important role in household financial decision-making and may contribute to improving household saving behavior. This study examined the theoretical relationship between financial literacy and household saving behavior, with particular attention to the Algerian context. Rather than relying on a primary household survey or econometric estimation, the study adopted a theoretical and literature-based approach combined with secondary evidence relevant to Algeria.

The analysis indicates that financial literacy can contribute to more informed and responsible financial behavior. However, the analysis

also demonstrates that financial literacy alone cannot determine household saving behavior.

The capacity to save depends on a broader set of economic and institutional factors, including disposable income, employment conditions, household consumption needs, economic uncertainty, access to financial services, and individual preferences. Financial literacy should therefore be understood as an enabling factor that strengthens households' ability to make appropriate financial decisions rather than as a substitute for adequate financial resources.

In the Algerian context, strengthening financial literacy appears particularly relevant as financial inclusion and digital financial services continue to develop. Financial education should therefore focus not only on theoretical knowledge but also on practical skills related to budgeting, saving, risk management, digital financial services, and long-term financial planning.

The study highlights the importance of an integrated policy approach combining financial education, financial inclusion, access to suitable saving instruments, consumer protection, and the promotion of household financial resilience.

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