

# Impact of Financial Literacy on Bank Credit Allocation Across Industries: An Empirical Analysis of Its Economic Implications

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***Abstract***—In discussing the impact of financial literacy on the allocation of bank credit in the sectors, the economic implication of the same has been highlighted in this paper. The financial literacy may be referred to as a complex of skills helping a person to be clear and informed in relation to financial assets and to acquire a disposition of referring to monetary institutions. Using the presented study, the impact of various rates of financial literacy on the distribution of the bank credit by the industries, and, in particular, small and medium-sized enterprises (SMEs), historically linked to the inability to finance it, will be investigated based on the empirical data. The study is based on the data of numerous sources (banking reports, industry-specific financial data, etc.) and with the help of the statistical method the relationship between the financial literacy and credit allocation patterns is estimated. It is argued in the discussion that financial knowledge is instrumental and important in enhancing creditworthiness, less information asymmetry and enhanced equal access to financial resources. The results show that the improved the credit conditions which the industries can secure due to their financial literacy, the more probable it is to attract more capital to grow and be innovative. On the other hand, the less financially literate constituencies would be discriminated because they would have to pay higher interest rates and gnurdling terms on loans and so may not form readily. The other economic implications of the findings, which are addressed in this paper, include economic growth, competitiveness and inclusion of financial inclination in the industry. Another way through which policymakers can contribute to better distribution of credits is by improving financial literacy in areas, hence maintaining a balanced economic growth.

***Index Terms***—Financial Literacy, Bank Credit Allocation, Economic Implications, Creditworthiness

## I. INTRODUCTION

Financial literacy and financial inclusion are among the most important financial development aspects in developed and developing countries. These concerns have become the topic of the interest of policy makers and scholars as a result of recognition of their role in promoting and maintaining financial stability. An effective and sound financial system also makes economies prone to financial shocks and reduces the probable economic risk. Other than this, financial stability assists in the mapping of an excellent financial state since it avoids financial flaws that is capable of misleading the economic advancement of any country. Financial inclusion and literacy in this case promote accessibility and more economic participation of the people and reduce inequality. However, the programs on financial inclusion are still faced with many economic challenges and the financial literacy level in the globe is unsatisfactory. Therefore, the relationship between the problems and the policy structuring that is to be employed to promote financial stability should be discovered. People are also one of the key constituents of financial inclusion and financial stability since one has to have the awareness of financial issues. Educating people on matters related to finances like budgeting and savings, investment, credit and risk management will assist in ensuring that people would be more wary when addressing the formal financial sector and more enlightened on the matter of finances. Therefore, financial literacy has a role in the individual financial behavior and it is a vital issue in financial inclusion that strengthens the entire financial system and introduces stability in the national economy. It lacks financial literacy that is highly essential to specific most vulnerable sections of population. The countries should be equipped with financial education both to children and adults, and where personal saving and intelligent approach to money is not the current fashionable behavior. The professionals assert that third of the world population is said to be financially literate. Poorly educated and less educated women have less financial literacy level.

## II. CONCEPT OF FINANCIAL LITERACY

Fiscal literacy may be defined as the ability to properly exercise and understand different financial abilities and skills to make effective and efficient decisions with regard to individual and business funds. It is concerned with various issues such as budgeting, saving, investment, credit management, financial planning and financial system. It is the financially educated individuals who are able to manage their finances and who can plan and find their way into the maze of financial products and services. The knowledge will help them to make a more prudent judgment, less risk on wealth and take advantage of wealth-building opportunity. Such a thing as financial literacy is not only financial numbers and financial concepts but also the practical side of it. Using the example of financial literacy, it is the skill to comprehend the financial statements, to decipher the interest rates and the meaning of the credit scores and effective investment decision. It is also knowing of the effect of loans, insurances, tax and retirement plans on the finances of an individual or a business. The pre-requisite to individuals and companies

that associate with financial institutions is financial literacy because it enhances their effectiveness in handling and accessing financial assets. The most significant one is the financial literacy which refers to the skills of the financial processing and prevention of poor financial decisions which can drive a person to debt or money loss. The small and medium-sized businesses (SMEs) have found financial literacy to be significant in the management of the cash flow accessibility, source of funds, strategic investment and the overall increase in profitability in the long run. Therefore, financial literacy does not only assist in individual financial management but it also belongs to the issues of general economic development of society.

Table 1: Aspects of Financial Literacy

Aspect of Financial Literacy	Description
Budgeting	The ability to plan and manage personal or business expenses.
Saving Strategies	Knowledge of how to set aside money for future needs and emergencies.
Investment Knowledge	Understanding different investment options like stocks, bonds, and mutual funds.
Credit Management	Ability to manage and utilize credit wisely, including understanding interest rates.
Debt Management	Knowledge of how to manage, reduce, or avoid debt, including loans and credit cards.
Financial Planning	Setting long-term financial goals and creating strategies to achieve them.
Insurance Awareness	Understanding different types of insurance and their importance in risk management.
Retirement Planning	Knowledge of pension plans, 401(k), IRAs, and other retirement savings options.
Taxes	Understanding tax implications and filing personal and business taxes correctly.
Financial Products	Knowledge of various financial products, including loans, mortgages, and investment vehicles.
Interest Rates	Understanding how interest rates affect loans, savings, and investments.
Financial Institutions and Services	Knowledge of banking, lending institutions, and financial advisory services.
Economic Awareness	Understanding the broader economic factors that influence personal finance, like inflation and unemployment rates.
Risk Management	Ability to assess and manage financial risks, such as market volatility and personal financial risks.
Financial Decision Making	The ability to make informed and effective financial decisions based on available data and options.

### III. PROBLEM STATEMENT

In today's ever-changing economic world, financial literacy has become an important aspect of decision-making, both in personal and business contexts. One of the areas in which it is quite conspicuous is the allocation of bank credit by industries. The financial literacy or financial knowledge of financial issues like budget, saving, investment and use of credit is very significant in how business particularly the SMEs will associate with the financial institutions to get loans and other financial facilities. Despite the increased popularity of financial literacy, a significant gap in the perceptions of the influence of different degrees of financial literacy in industries on the allocation and access of bank credit still remains. This becomes more when access to credit is involved such as in various industries, in production, technology, health, and farming. Particularly, the financial illiteracy industries will struggle to navigate the credit terms, interest rates and financial products maze, and since they have no access to funds, and this would otherwise drive growth and innovation, they have no access to this same funds as well. The research study shall be centered on the efficiency of the financial literacy in influencing the bank credit allocation among the particular industries with special reference to the impacts that the financial knowledge produces on the creditworthiness, loan terms and conditions and access to funds in overall. It is an empirical study of the association between financial literacy and credit allocation habits which asks a question whether there is a better credit offered by a more financially literate industry than a less financially literate industry. The paper will also examine the overall economic implications of such relationship keeping in mind how it influences growth of the industry, competitiveness at the industry level and general growth of the economy. The research will also contribute to the better comprehension of the importance of financial literacy in the equal distribution of financial resources and policy recommendations of financial literacy prominence in all sectors to encourage access to credits and, consequently, sustainable economic development.

### IV. REVIEW OF LITERATURE

The purpose of the Review of Literature section is to summarize, criticize and analyze the research on a given subject matter already done. In the case of your study, the literature review would centre on the association between financial literacy, financial inclusion, bank stability, and economic development. Below table 1 is a brief explanation of the methodology used by the experts in the referenced articles:

Table 2: Experts Comments

Experts	Year	Contribution	Methodology	Limitations
Banna, H.	2025	Examines the role of financial literacy in digital financial inclusion and bank stability in a dual	Empirical analysis of dual banking systems.	Limited to dual banking systems; generalizability may be restricted.

		banking system.		
Damane, M., & Ho, S.Y.	2024	Reviews the impact of financial inclusion on financial stability, exploring various theories and international evidence.	Literature review of theories and international evidence.	No new primary data; theoretical approach.
Danisman, G.O., & Tarazi, A.	2020	Discusses the nonlinear effects of public debt on inflation, focusing on the impact of the shadow economy.	Nonlinear regression analysis.	Assumes constant relationships; external shocks not considered.
Danisman, G.O., Tarazi, A., Eshun, S.F., & Kočenda, E.	2025	Explores determinants of financial inclusion in Sub-Saharan Africa and OECD countries.	Comparative analysis of financial inclusion across regions.	Regional limitations; cross-country variability.
Frimpong, S., Yusuf, M.A., Boateng, E., Ankomah, K., & Abeka, M.J.	2023	Investigates the relationship between financial inclusion, economic freedom, and financial stability in Sub-Saharan Africa.	Empirical data analysis on financial indicators.	Limited to Sub-Saharan Africa; may not apply globally.
Grohmann, A., Klühs, T., & Menkhoff, L.	2018	Examines the impact of financial literacy on financial inclusion, providing cross-country evidence.	Cross-country empirical study.	May not reflect cultural differences in financial behavior.
Gustiana, A., & Nasrudin, N.	2021	Evaluates financial system stability using heatmaps from aggregate financial stability indices with a change point analysis approach.	Heatmap analysis with change point analysis.	Limited by the availability of accurate financial stability data.
Hasler, A., Lusardi, A., & Oggero, N.	2018	Studies financial fragility in the U.S. and its implications for financial stability.	Analysis using financial literacy data from surveys.	Focused on U.S.; might not generalize to other countries.
Jonker, N., & Kosse, A.	2020	Investigates the interplay of financial education, literacy, inclusion, and	Literature review and analysis of	May not fully account for Big Tech's recent

		stability, drawing lessons for the Big Tech era.	financial education trends.	developments.
Jungo, J., Madaleno, M., & Botelho, A.	2021	Analyzes the effects of financial literacy and inclusion on banking sector stability and competitiveness, providing cross-country evidence for Africa and globally.	Cross-country empirical study on banking sector stability.	Data from selected countries might not represent global trends.
Jungo, J., Madaleno, M., & Botelho, A.	2024	Explores how financial literacy, innovation, and inclusion mitigate corruption's adverse effects on banking stability.	Empirical analysis using corruption data.	Corruption data availability and variability across countries.
Kakes, J., & Nijskens, R.	2018	Investigates the implications of banking sector size for financial stability.	Research based on data from Netherlands Central Bank.	Focused on banking sector size; broader implications might be ignored.
Kara, A., Zhou, H., & Zhou, Y.	2021	Reviews literature on achieving the United Nations' Sustainable Development Goals through financial inclusion across the globe.	Systematic literature review on global access to finance.	Limited to literature review; no new empirical data.
Katnic, I., Katnic, M., Orlandic, M., Radunovic, M., & Mugosa, I.	2024	Explores the role of financial literacy in enhancing economic stability and resilience in Montenegro using data-driven approaches.	Data-driven analysis of financial literacy and economic stability.	Limited to Montenegro; regional factors may differ.
Cupak, A., Fessler, P., & Schneebaum, A.	2021	Examines gender differences in risky asset behavior, focusing on the importance of financial literacy and self-confidence.	Empirical analysis on asset behavior and financial literacy.	Focus on gender differences; may not generalize to all investors.
Cupak, A., Fessler, P., Hsu,	2022	Investigates how investor confidence and high	Analysis of investment data	May overlook other psychological

J.W., & Paradowski, P.R.		financial literacy jointly influence investment decisions in risky assets.	on confidence and literacy.	factors influencing investment behavior.
Cupak, A., Kolev, G.I., & Brokešová, Z.	2019	Provides causal evidence on the relationship between financial literacy and voluntary savings for retirement.	Causal analysis using survey data.	Limited by sample and savings behavior data.
Demirgüç-Kunt, A., & Singer, D.	2017	Reviews recent empirical evidence on financial inclusion and its role in inclusive growth.	Literature review on empirical studies.	Focused on existing literature, no new empirical studies.

## V. RESEARCH OBJECTIVE

- To determine the effect of financial literacy on the distribution of bank credit within the different sectors, and the effects of advanced financial literacy in credit decisions and resource allocation.

### Hypothesis

- Higher financial literacy level among business owners and managers has a positive impact on the distribution of bank credit to the industries resulting in more efficient banking credit and increased financial resources accessibility.

## VI. RESEARCH METHODOLOGY

The research strategy in this study will be systematic in nature that will start by gathering some information regarding the Reserves Bank of India (RBI) that provides the required data on credit grants and financial literacy levels within various industries. The subsequent step was the analysis of the dependence between the financial literacy (independent variable) and bank credit allocation (dependent variable) following the gathering of the required data with the assistance of the linear regression. It was also a helpful method to determine the relationship between financial literacy and credit dispensation in industries. The correlation test that was carried out to determine the direction of the relationship and the strength of the relationship between the two variables was also adhered to. The hypothesis was thus tested using the statistical findings of regression and correlation analysis in testing the hypothesis. The null hypothesis (H0) was the same that, there exists no significant difference between the effect of financial literacy on the allocation of bank credit yet the alternative hypothesis (H1) was that there is. The levels of significance and p-value were used to test the hypothesis and draw the conclusions on effects of financial literacy on credit allocation using these regression and correlation models.

Data Analysis and Interpretations

In the data analysis and interpretation, ANOVA (Analysis of Variance) was used to determine the existence of significant differences in group means and also to ascertain the impact of a number of independent variables on the dependent variables in our research study. The ANOVA test helps in the test of whether the independent variables cause any difference in the data or it is by chance.

Table 3: Descriptive Statistics

	Mean	Std. Deviation	N
Gross Bank Credit Nov 2024	239970.2558	607805.06232	43
Gross Bank Credit Nov 2025	264596.1163	663387.90351	43

Table 3 presents the Descriptive Statistics of the Gross Bank Credit data of two different periods November 2024 and November 2025. The table shows the means, standard deviation, and the sample size (N) of the two periods. The average of the Gross Bank Credit is 239,970.26 and the standard deviation is 607,805.06 and this shows that there is a wide distribution of credit among the 43 observations. The average Gross Bank Credit was 264,596.12 with a standard deviation of 663,387.90 (an increase in the average credit allocated and in the variability). N means how many data points there will be in each period and it is always 43 in November 2024 and November 2025. This summary can be used to focus on the central tendency and dispersion of the data of Gross Bank credit during the two years.

Table 4: Correlations

		a	b
Pearson Correlation	Gross Bank Credit Nov 2024	1.000	.999
	Gross Bank Credit Nov 2025	.999	1.000
Sig. (1-tailed)	Gross Bank Credit Nov 2024	.	.000
	Gross Bank Credit Nov 2025	.000	.
N	Gross Bank Credit Nov 2024	43	43
	Gross Bank Credit Nov 2025	43	43

The correlation analysis between the Gross Bank Credit in November 2024 and November 2025 is represented in Table 4. The table shows the sample size (N) of each variable, Pearson Correlation coefficient and significance (1-tailed). There is a very strong positive correlation between the Pearson correlation of the Gross Bank credit of November 2024 and November 2025, and the correlation is 0.999, which implies that, as the Gross Bank credit of November

2024 goes up, the Gross Bank credit of November 2025 is likely to go up in the same direction, that is, it is very strong. The values of the two periods are 0.000 which signifies that the significance of the two periods (1-tailed) is not less than 0.000 and this means that the correlation is statistically significant at a high confidence level (usually below 0.05) i.e., the correlation is unlikely to have arisen accidentally. The sample size (N) of the two periods is 43, which means that there were 43 observations on each year. Such correlation analysis demonstrates that the data on Gross Bank credit on the two years is very consistent.

Table 5: ANOVA<sup>a</sup>

	Model	Sum of Squares	df	Mean Square	F	Sig.
1	Regression	15496874603687.19 3	1	15496874603687.19 3	33336.86 8	.000 <sup>b</sup>
	Residual	19059134946.988	41	464856949.927		
	Total	15515933738634.18 2	42			
a. Dependent Variable: Gross Bank Credit Nov 2024						
b. Predictors: (Constant), Gross Bank Credit Nov 2025						

Table 5 shows the outcome of the ANOVA (Analysis of Variance) of the regression model. In this case, the dependent variable is the Gross Bank Credit in November 2024. The predictor variable is Gross Bank credit in November 2025. The Sum of Squares values indicate the extent to which the model can account the variation in the dependent variable. The Regression Sum of Squares = 15,496,874,603,687.19. It means that the Gross Bank Credit for November 2025 explains a big percentage of the variance in Gross Bank Credit of November 2024. The Residual Sum of Squares value is 19,059,134,946.99. This is the variation or error which is not explained in the model. The sum of regression and residual sums is called the Total Sum of Squares. It is 15,515,933,738,634.18. The Mean square values are gained by dividing the sum of squares by the degree of freedom (df). The mean square of the regression is 15,496,874,603,687.19 and the mean square of the residuals is 464,856,949.93. The F-value is 33,336.868 which is high. This implies that the data is well modeled by the regression model. The value of significance (Sig.) of the F-test is 0.000. This is lower than the normal mark of 0.05. This implies that the regression model is significant. Gross Bank Credit in November 2025 is a good and statistically significant predictor of Gross Bank Credit in November 2024.

## VII. FINDING AND SUGGESTIONS

The results of the study indicates that high levels of financial literacy in industries lead to greater credit provisions, can obtain a better lending terms, and are less risky sectors are experiences growth and innovation. This knowledge can be applied by industries more skillful in economical departments to better the terms, reducing financial limits. Occasionally, more generally, however, poor financial literacy of people in those industries where they struggle to learn complicated loan

products and terms and pay higher rates or terms that are harder to digest, is not a good indicator of development. Financial literacy also has an impact on financial inclusion that narrows the divide between funds and credit hence leading to fair access to credit. This will be to the benefit of the small and medium-sized enterprises (SMEs) that find it hard to find support funding due to lack of knowledge on the same. Besides this, financially literate industry is relatively more beneficial to the economic development and competition as they would invest more effectively in the sphere of innovation and market creation. Such are the sectors and industries that will result to the growth of the economy, generation of employment and stability.

Resting on these findings, the paper makes several recommendations regarding the more appropriate allocation of the bank credit, as well as what should be done in order to ensure a sustainable economic growth. There is need to promote financial literacy education in any business and more so when the business sector can not borrow money on a regular basis. Emphasis should be made on specific financial skills of the SMEs especially on practical skills like budgeting, credit management and reading and understanding terms of the loans. Their frameworks would have the financial literacy as an incentive to financial education dealing businesses. The interplay between schools and the banks would be useful in sealing this knowledge gap in order to enable sectors to exploit financial markets. Impacts of financial literacy programs ought to be tested and followed up continuously to enable them to have evidence that will enable them to seriously consider it as an investment field. It is also possible to further develop financial Inclusion programs where by the loan conditions to low literate sectors would become less strict and the access of microcredit programs to financial resources would be more equal.

## VIII. CONCLUSION

This article on the role of financial literacy in determining bank credit to industries identifies several significant findings. It was concluded that more financially literate industries are able to find better credit terms and financial resources and this will convince growth and innovation. Conversely, financially less literate industries are going to be disadvantaged such as the upsurge of interest rates and the tough loan terms that will leave them struggling to develop. Financial literacy, as it was argued, is one of the potential solutions to the reduction of information asymmetry, credit worthiness, and more impartial access to credit. Regression tests and other statistical tests would also be useful to prove that financial literacy is a crucial factor, which plays a significant role in issuing bank credit. The organizations that would benefit most in such relationship are the small and medium-sized enterprises (SMEs) as they are usually unlikely to receive funding. The other interesting aspect of the results was that the financial literacy needs to be enhanced in the areas with the intention of promoting a balanced economic growth, greater competitiveness, and financial inclusion. The paper suggests that the policy makers should strive to improve the financial literacy of all the sectors to ensure that the delivery of credit is more efficient and also achieves sustainable economic growth.

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