

Financial Literacy to Financial Stability

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This presentation is part of a bigger project with Dimitris
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Disclaimer

The views expressed are our own and do not necessarily reflect the views of the European Central Bank or those of the euro system.

The importance of financial literacy

- Financial literacy has gained recognition as **an essential life skill** :
 - Individuals and households face a **wide array of complex financial products**
 - The recent increase in **inflation** in many countries further underlines the importance of financial literacy
 - With **new technologies**, such as digital transactions, online banking, and crypto assets, financial literacy is also critical for scam avoidance and wise money management
 - The shift away from traditional **pension** schemes in many countries places additional responsibility on individuals to secure their future



Topics I will cover

- Do people have the knowledge of the fundamental concepts at the basis of financial decision-making?
- Can people use their financial literacy in effective ways? How do they make financial decisions?
- Implications of these findings for central banks

Measuring financial literacy: The ABCs of personal finance

These are the questions I designed jointly with Olivia Mitchell, known as the “Big Three.”
One question is about inflation:

The Big Three

1. “Suppose you had \$100 in a savings account and the interest rate was 2% per year. After 5 years, how much do you think you would have in the account if you left the money to grow?”
2. “Imagine that the interest rate on your savings account was 1% per year and inflation was 2% per year. After 1 year, with the money in this account, would you be able to buy...”
3. “Do you think the following statement is true or false? Buying a single company stock usually provides a safer return than a stock mutual fund.”

- More than \$102
- Exactly \$102
- Less than \$102
- Don't know
- Refuse to answer

- More than today
- Exactly the same as today
- Less than today
- Don't know
- Refuse to answer

- True
- False
- Don't know
- Refuse to answer

Financial literacy according to the S&P Global FinLit Survey

Denmark, Norway, and Sweden lead the list with 71% of adults being financially literate.

In the US, 57% of adults are financially literate

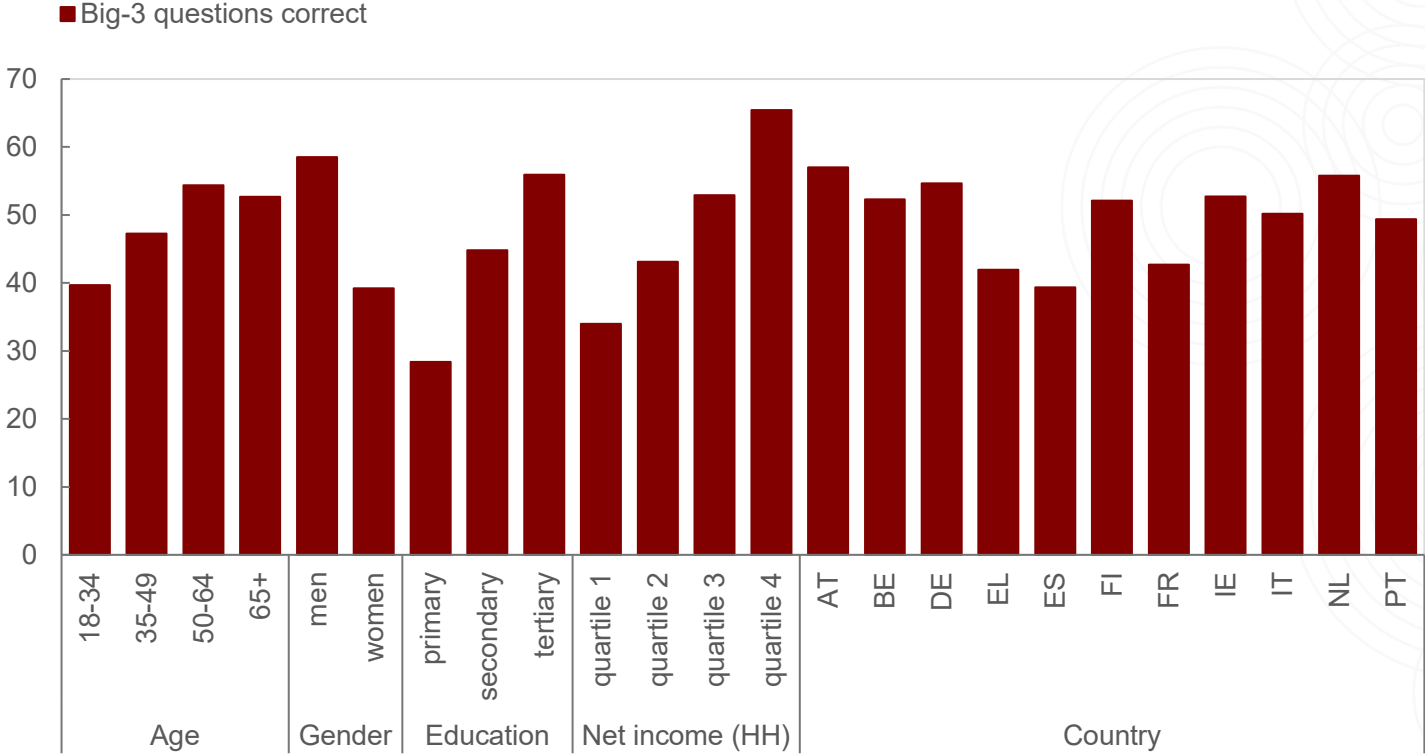
Country	% who are financially literate
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Estonia	54%
Austria	53%
Slovak Republic	48%
Montenegro	48%
Slovenia	44%
Croatia	44%
Bulgaria	35%
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See Klapper, L. and A. Lusardi. 2020. *Financial literacy and financial resilience: Evidence from around the world*. In: *Financial Management* 49(3). 589–614, Appendix B.

Source: S&P Global Finlit

Financial literacy in EA – Heterogeneity across groups

Share of consumers with high financial literacy
(percentage of consumers)



Financial literacy matters for central banks

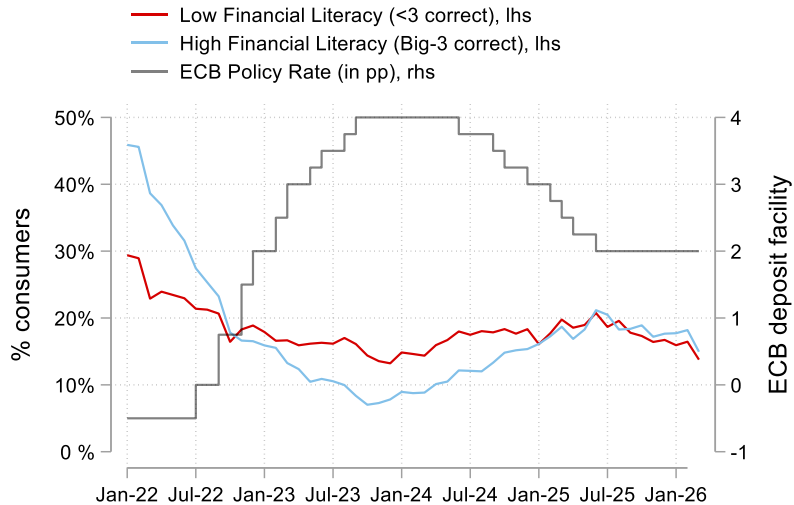
Financial literacy allows people to make better financial decisions, but it also affects the macroeconomy

- **It can affect the transmission of monetary policy**
 - **The interest rate channel**
 - **The asset channel**
- **It can affect central bank communication**
- **It can affect the stability of the financial system**
 - **Precautionary savings**
 - **Debt and debt management**

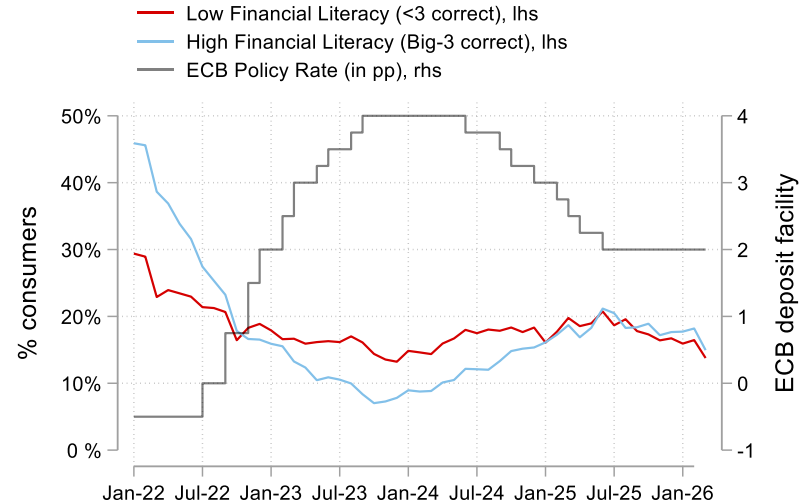
Interest rate channel: Good time to save and borrow

- ❖ High FL: better sense of good timing; more aligned with interest rates (IR) developments

Good time to **save** (yes)
(percentage of consumers, by literacy)



Good time to **borrow** (yes)
(percentage of consumers, by literacy)



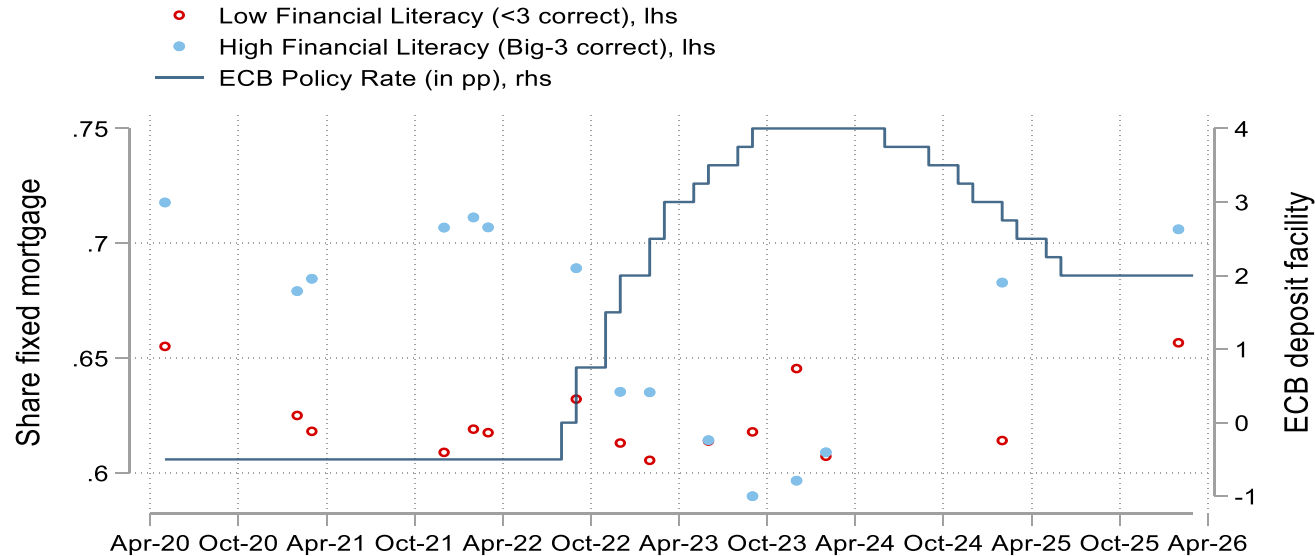
Source: ECB Consumer Expectations Survey, latest data: March 2026. Authors' calculations.

Notes: Each month in the CES Consumers are asked “**Generally speaking, do you think now is a good time or a bad time to ...?**” (i) “**Save money in savings accounts**” (ii) “**Borrow money from a bank**” on a 5-point-scale from “**very bad**” to “**very good**”. Weighted estimates.

Interest rate channel: FRMs vs ARMs

Hypothetical mortgage type: fixed
(percentage of consumers, by literacy)

❖ Low FL: favor FRMs in a high IR environment

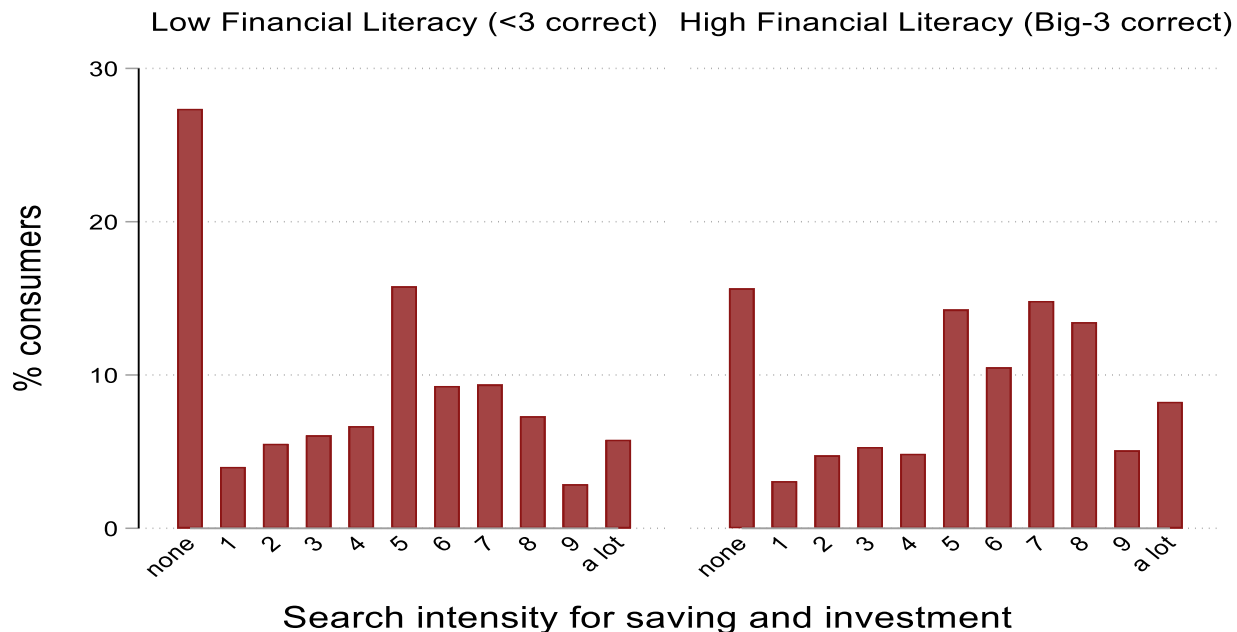


Source: ECB Consumer Expectations Survey, latest data: Feb. 2026. Authors' calculations.

Notes: On ad-hoc basis the CES asks consumers “**Suppose you have to take out a mortgage to finance the purchase of a house/apartment today. Which one of the following types would you choose?**” Respondents can choose from: “**An adjustable rate mortgage**”, “**A fixed rate mortgage**” or “**A mixed mortgage loan**” with short explainers on the types of mortgages. Weighted estimates. Data depicted is pooled from Belgium, Germany, Spain, France, Italy, and the Netherlands.

Asset channel: Shopping for best products

Shopping around for investments products
(in percent of consumers, by literacy)



Source: ECB Consumer Expectations Survey. Authors' calculations.

Notes: Consumers are asked **“When making major decisions about [borrowing money or obtaining credit/saving and investment decisions], some people search for the very best terms while others don’t. What best describes you and your household?”** on a 11-point-scale from 0 (no searching) to 10 (A great deal of searching). Weighted estimates. Pooled Nov. 2022, Nov. 2023, Nov. 2024, Nov. 2025 data.

Asset channel: Financial literacy and stock market participation

- ❖ High FL: significantly higher stock market participation

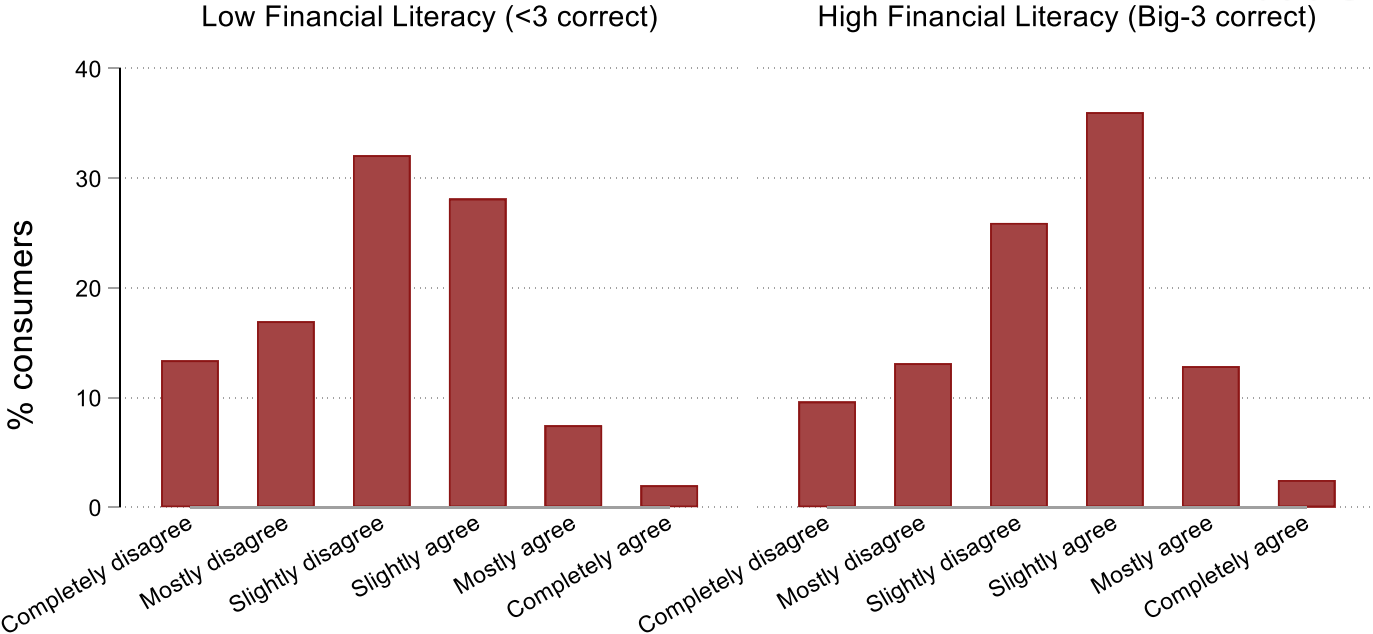
	Stocks (direct)	Mutual funds / ETFs	Stocks (direct) or Mutual Funds /ETFs	Voluntary Pension Products
Big-3 (correct)	0.08***	0.13***	0.15***	0.06***
	(0.003)	(0.003)	(0.004)	(0.005)
Number of observations	88,759	88,716	89,069	88,796

Source: ECB Consumer Expectations Survey. Authors' calculations.

Notes: The table depicts marginal effects from a **linear probability model with ownership of the respective asset** as dependent variable. Demographic controls include *age, gender, income, education, household size*, and all regressions include *country and wave* dummies. Pooled data from Nov. 2021, Nov. 2022 and Nov. 2024, Nov. 2024, Nov. 2025.

Communication: More effective if people understand monetary policies

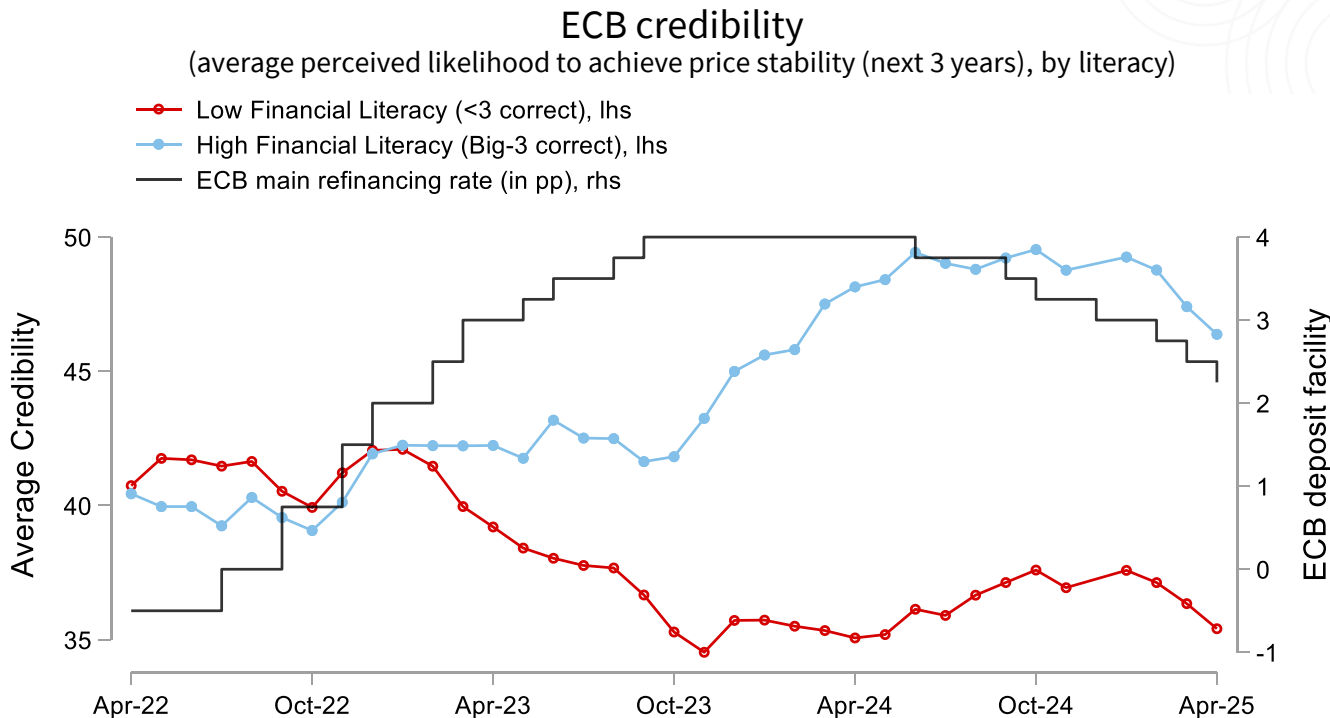
The ECB policy decisions to raise interest rates ensure overall price stability
(percentage of consumers, by literacy)



Source: ECB Consumer Expectations Survey. Authors' calculations.

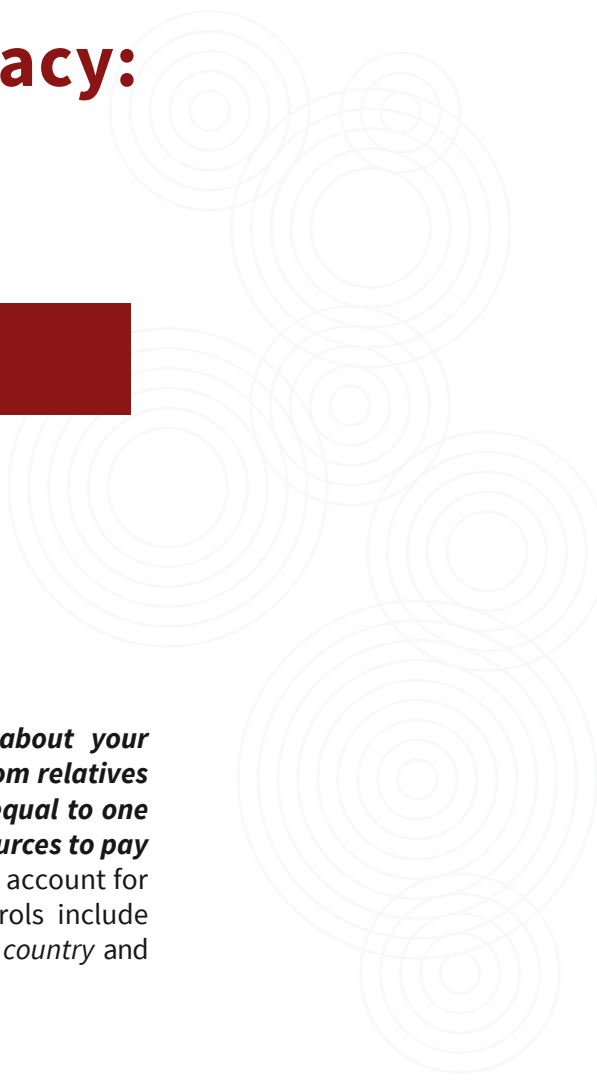
Notes: In March 2023 consumers were asked **how much they agree or disagree with the following statement** **“The ECB policy decisions to raise interest rates ensure overall price stability.”**. Weighted estimates.

Communication: More effective if people trust the ECB



Source: ECB Consumer Expectations Survey. Authors' calculations. **“How likely do you think it is that the European Central Bank (ECB) will maintain price stability in the euro area economy over the next 3 years?”** (slider 0 to 100), latest data: April 2025 (after April 2025 the frequency of asking this question changed in the survey). This measure has been originally developed by *Ehrmann, M., Georgarakos, D. and Kenny, G., 2025. Credibility gains from central bank communication with the public. European Economic Review, 177, p.105069.*

Financial stability and financial literacy: Precautionary savings



	Financially fragile
Big-3 (correct)	-0.11***
	(0.003)
Number of observations	1,232,024

Source: ECB Consumer Expectations Survey. Authors' calculations.

Notes: Consumers are asked each month in the CES: “***Please think about your available financial resources, including access to credit, savings, loans from relatives or friends, etc. Suppose that you had to make an unexpected payment equal to one month of your household income. Would you have sufficient financial resources to pay for the entire amount?***” (April 2020 to March 2026); Weighted estimates that account for country, survey-wave and socio-demographic factors. Demographic controls include *age, gender, income, education, household size*, and all regressions include *country* and *wave* dummies.

Financial stability and financial literacy: Debt management

- ❖ High FL: less likely to have difficulty making payments on time

	Expected late payments	
	Mortgage	Other loans
Big-3 (correct)	-0.05*** (0.002)	-0.03*** (0.003)
Number of Observations	204,267	211,734

Source: ECB Consumer Expectations Survey. Authors' calculations.

Notes: Consumers are asked each quarter in the CES: “**Looking ahead over the next 3 months, do you expect that your household is likely to have difficulty making any of the following payments on time? mortgage/other loans**”. The table depicts marginal effects from a linear probability model with expected late payments of the respective item as dependent variable. Weighted estimates that account for country, survey-wave and socio-demographic factors. Demographic controls include *age, gender, income, education, household size*, and all regressions include *country* and *wave* dummies. Pooled quarterly data from April 2020 to January 2026.

What can be done to improve financial literacy?



Does financial education work? A meta-analysis



Journal of Financial Economics

Available online 3 October 2021

In Press, Corrected Proof



Financial education affects financial knowledge and downstream behaviors

Tim Kaiser ^a, Annamaria Lusardi ^b, Lukas Menkhoff ^c, Carly Urban ^d

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Abstract

We study the rapidly growing literature on the causal effects of financial education programs in a meta-analysis of 76 randomized experiments with a total sample size of over 160,000 individuals. Many of these experiments are published in top economics and finance journals. The evidence shows that financial education programs have, on average, positive causal treatment effects on financial knowledge and downstream financial behaviors. Treatment effects are economically meaningful in size, similar to those realized by educational interventions in other domains, and robust to accounting for publication bias in the literature. We also discuss the cost-effectiveness of financial education interventions.

- Look at the most rigorous evaluation of financial education programs (RTCs studies) in as many as 33 countries
- Financial education works. It has an effect on both knowledge and behavior.
- It not only works but it is also cost effective
- **It is effective both among the young and the old**

The importance of financial education

- Financial education should start in school
- Financial education continue over the life cycle, for example in the workplace, or where people go to learn
- Money matters be made part of the conversations we normally have

The central role of schools

“Spillover effects of financial education: The impact of school-based programs on parents.” From Veronica Frisanchi, April 2023 issue



Providing financial education in school:

Improved the financial literacy not only of students but also of parents

Children from low socio-economic status teach the parents about personal finance

At Stanford, our students bring financial education to the local schools and to their own communities

Some recommendations for national strategies

- Collect data to assess the situation and progress. Add financial literacy to national statistics. Participate to PISA financial literacy assessment.
- Advocate for financial education in school and the workplace
- Institute a “Financial Literacy Month”
- Work together with stakeholders, including academics
- Be bold and have a long-term horizon

World Economic Forum (WEF)



- The World Economic Forum has embraced financial literacy
- One of their Global Future Councils is devoted to financial education
- We are working with many central banks

Network of Global Future Councils

The World Economic Forum's Network of Global Future Councils is the world's foremost multistakeholder and interdisciplinary knowledge network dedicated to promoting innovative thinking to shape a more resilient, inclusive and sustainable future. Each council's insights are taken forward by the Forum's ongoing initiatives, communities and meetings to ensure impact.

The graphic features a dark blue background with a glowing globe and a network of white lines connecting various points, symbolizing global connectivity and future-oriented thinking.

Global Future Council on Financial Education

Amidst the rise of individual investing, innovation in financial products and tools, and economic uncertainty, it is essential to reimagine the future of financial education to ensure individuals can access the information and products needed to achieve long-term financial wealth. With the onus of financial wellbeing increasingly falling on individuals, how can we empower people with the skills they need to navigate this challenging and evolving economic landscape?

Initiative for Financial Decision-Making (IFDM)

Collaboration among:

Stanford | Institute for Economic
Policy Research (SIEPR)

STANFORD GRADUATE
BUSINESS SCHOOL OF

Stanford | Department of Economics
SCHOOL OF HUMANITIES AND SCIENCES

**Research, education, technology, and policy come
together to empower people to make financial decisions**