

Investigation of New Evidence for Financial Literacy and Household Indebtedness: Evidence from the Selected Districts in Sri Lanka

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Abstract

Continuously rising household indebtedness is one key challenge that Sri Lanka is confronting and needs attention. The literature provides evidence that there is a negative relationship between financial literacy and household indebtedness. Compared with South Asian countries macro level data suggest that Sri Lanka has a high level of financial literacy. The aim of this study is to identify the factors influencing the rising household indebtedness and to investigate the existing relationship between financial literacy and household indebtedness. The study also focuses on suggesting public policies to overcome the rising household indebtedness. The data was collected from households in the Matale, Polonnaruwa and Vavuniya districts through a questionnaire using systematic probability sampling technique. Findings revealed that household income as the most influential factor on household indebtedness and ethnicity as the least affecting factor. The regression analysis indicated that there is a negative relationship between financial literacy and household indebtedness in Sri Lanka. These findings will lead to reduce the effects of unsustainable levels of household indebtedness in Sri Lanka.

Keywords: Financial Literacy, Household Indebtedness, Household Income, Sri Lanka