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ENHANCING FINANCIAL LITERACY AND INVESTMENT ACTIVITY OF THE POPULATION: CHALLENGES AND DEVELOPMENT PRIORITIES

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Abstract. Financial literacy has become an essential determinant of household financial well-being and a significant factor influencing saving and investment decisions. This article examines the relationship between financial literacy and the investment activity of the population, with particular attention to the challenges faced by households in emerging economies and Uzbekistan. The study applies a qualitative analytical approach based on international reports, academic literature, and comparative evidence on financial knowledge, saving behavior, financial inclusion, and participation in investment products. The analysis shows that insufficient knowledge of inflation, compound interest, risk diversification, and digital financial products can limit the ability of households to transform savings into productive investments. At the same time, expanding digital financial services creates new opportunities for broader participation in formal saving and investment, while also increasing the importance of consumer protection and digital financial literacy. The paper proposes a set of priorities including financial education across the life cycle, targeted programs for vulnerable groups, development of accessible investment products, stronger consumer protection, and improved cooperation among educational institutions, financial organizations, regulators, and digital platforms. Strengthening these mechanisms can contribute to household financial resilience, greater investment participation, and more efficient mobilization of domestic savings for economic development.

Keywords: financial literacy, investment activity, household savings, financial inclusion, financial education, digital finance, investment decisions, Uzbekistan.

Introduction. The growing complexity of financial markets has increased the responsibility of individuals for decisions related to saving, borrowing, insurance, pensions, and investment. Financial literacy is therefore no longer limited to the ability to manage a household budget. It includes knowledge, skills, attitudes, and behavior that enable people to evaluate financial alternatives, understand risk and return, and make informed long-term decisions.

The importance of this issue is confirmed by international evidence. The OECD/INFE 2023 International Survey of Adult Financial Literacy covered 39 countries and economies and assessed financial knowledge, behavior, attitudes, inclusion, digital financial literacy, and financial well-being. More recent OECD analysis reports that only 34 percent of adults in the participating jurisdictions achieved the minimum target financial literacy score of 70 out of 100. These results indicate that a substantial share of adults may face difficulties when choosing financial products or making investment decisions.

Financial inclusion has expanded rapidly, particularly through digital channels. The World Bank's Global Findex 2025 reports that account ownership and formal saving have continued to increase, while mobile technology has become an important channel for saving in developing economies. However, access alone does not guarantee effective use. People need sufficient financial and digital literacy to compare products, understand fees and risks, protect themselves from fraud, and choose instruments that correspond to their financial objectives.

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For Uzbekistan, strengthening financial literacy is particularly relevant because the transformation of the financial sector and the expansion of digital services are creating new opportunities for households. At the same time, earlier World Bank assessments have emphasized the need to strengthen knowledge of basic financial concepts and improve the capacity of consumers to use increasingly complex financial services. The purpose of this article is to identify the main factors limiting the investment activity of the population and to develop practical priorities for improving financial literacy and encouraging responsible investment behavior.

Literature Review. Financial literacy is widely considered an important component of financial capability. The OECD defines it through the interaction of financial awareness, knowledge, skills, attitudes, and behaviors that support sound financial decisions and individual financial well-being. This approach is important because investment activity depends not only on knowledge of financial terminology but also on the ability to apply that knowledge in real decisions.

Empirical research generally finds a positive relationship between financial education, financial literacy, and financial behavior. Kaiser and Menkhoff's meta-analysis of impact evaluations concluded that financial education significantly improves financial literacy and also has a positive effect on financial behavior, although the size of the effect differs across population groups and economic settings. World Bank research likewise indicates that financially literate individuals are more likely to save, suggesting an important channel through which knowledge can support future investment.

The relationship between literacy and investment is also connected with portfolio choice. Individuals who understand inflation, diversification, compound interest, and the risk-return relationship are better positioned to compare deposits, securities, pension products, and other investment alternatives. OECD evidence from Germany, for example, shows that adults with higher financial literacy are substantially more likely to hold investment products after accounting for socio-demographic characteristics. Although such findings cannot be transferred mechanically to every country, they demonstrate the potential link between financial capability and participation in capital-market products.

For Uzbekistan, research on financial inclusion has identified both demand-side and supply-side barriers. Earlier studies noted widespread informal saving and borrowing practices and relatively limited use of formal and digital financial products. More recent financial-sector development and digitalization create opportunities to change this pattern, but successful transition requires trust, consumer protection, accessible products, and practical financial education.

Research Methodology. The study uses a qualitative and comparative analytical methodology. The information base consists of OECD financial literacy studies, World Bank Global Findex materials, World Bank assessments of financial capability and inclusion in Uzbekistan, Asian Development Bank research, and relevant academic evidence on the effects of financial education.

The analysis focuses on five interconnected dimensions: (1) basic financial knowledge; (2) saving behavior; (3) understanding of investment risk and diversification; (4) access to formal and digital financial services; and (5) institutional conditions that influence household investment decisions. A problem–solution approach is used to identify barriers and formulate policy and educational priorities.

The article does not attempt to estimate a causal econometric model for Uzbekistan because a new representative household dataset is not constructed within this study. Instead, it synthesizes

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available international and country-specific evidence to develop hypotheses and practical recommendations that can be tested in future empirical research.

Results and Discussion. The analysis indicates that financial literacy can influence investment activity through several channels. First, financially literate households are more likely to plan income and expenditures, create emergency savings, and distinguish short-term consumption needs from long-term financial goals. This improves the possibility of accumulating resources that can later be invested.

Second, understanding inflation and the time value of money affects the choice between holding cash and using financial instruments. When households do not understand how inflation reduces purchasing power, they may underestimate the cost of keeping long-term savings in non-interest-bearing forms. Knowledge of compound interest also helps consumers evaluate the long-term effects of deposits, bonds, pension savings, and other instruments.

Third, investment participation requires an understanding of risk. A person who interprets investment only as the possibility of high returns may either avoid investment completely or take excessive risks. Financial education should therefore explain diversification, liquidity, time horizon, expected return, and the difference between guaranteed and market-based products.

Fourth, digitalization has lowered many practical barriers to financial participation. Mobile applications and digital platforms can make savings and investment services more accessible, reduce transaction costs, and provide real-time information. World Bank evidence shows that mobile technology is contributing to growth in formal saving in developing economies. Nevertheless, digital access introduces risks related to fraud, data privacy, misleading information, and impulsive financial decisions. Digital financial literacy must therefore develop together with digital financial inclusion.

Fifth, the Uzbekistan context requires attention to trust and the transition from informal to formal saving. If households are accustomed to holding foreign currency, cash, property, or other informal assets, financial education alone may not be sufficient. Financial institutions must offer transparent, understandable, affordable, and credible products. Consumer protection and clear disclosure of fees, returns, and risks are necessary to build confidence.

The results suggest that financial literacy policies should not be designed as isolated short courses. Effective policy should combine education with access, appropriate products, consumer protection, and opportunities to practice financial decision-making.

5. Priority Directions for Increasing Financial Literacy and Investment Activity

A comprehensive strategy for increasing investment activity should begin with financial education at an early age and continue throughout adulthood. Schools and universities can integrate practical topics such as personal budgeting, saving, inflation, interest, credit, insurance, investment risk, diversification, pensions, and digital security into educational programs. The emphasis should be on real-life decisions rather than memorization of definitions.

Targeted education is also necessary. Young people, low-income households, women, older adults, first-time users of digital finance, and residents with limited access to financial services may face different barriers. Programs should therefore be adapted to the needs, language, digital skills, and financial circumstances of specific groups.

Financial institutions can support responsible investment participation by developing simple and transparent products with clear explanations of risk and return. Digital applications can include educational modules, calculators, risk warnings, comparison tools, and simulated investment environments. Such instruments can help users learn before committing significant funds.

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Another priority is strengthening public confidence. Regulators and financial institutions should improve disclosure standards, complaint mechanisms, fraud prevention, data protection, and public communication. Financial education is most effective when people operate in a market where products are fair and information is reliable.

Finally, regular measurement is essential. National surveys should assess not only financial knowledge but also actual behavior: emergency savings, use of formal accounts, diversification, investment participation, exposure to fraud, and confidence in financial institutions. These indicators can help policymakers evaluate whether educational initiatives lead to measurable improvements in household financial behavior.

Recommendations

Based on the analysis, several practical measures can be proposed for Uzbekistan. First, a coordinated national financial education framework should connect schools, universities, banks, capital-market institutions, regulators, and community organizations. Second, financial literacy modules should include investment literacy and digital safety rather than focusing only on budgeting and credit. Third, universities can establish financial literacy centers and organize practical workshops using real financial cases and simulations.

Fourth, financial institutions should expand easily understandable saving and investment products and provide standardized information about expected return, liquidity, fees, and risk. Fifth, digital platforms should incorporate consumer-protection tools and educational prompts. Sixth, public information campaigns should explain the difference between saving and investing and emphasize diversification and long-term planning. Seventh, periodic national surveys should measure progress and identify groups requiring additional support.

These measures can help create a gradual pathway from basic financial knowledge to responsible saving, and from saving to informed investment. The objective should not be to encourage households to take more risk, but to enable them to make decisions that are appropriate to their goals, resources, and risk tolerance.

Conclusion. Financial literacy is an important foundation for strengthening the investment activity of the population. Individuals who understand fundamental financial concepts are better equipped to plan, save, evaluate risk, compare financial products, and make long-term investment decisions. International evidence also suggests that financial education can improve both knowledge and financial behavior, although program design and target groups matter.

For Uzbekistan, the expansion of digital finance and ongoing financial-sector development create favorable conditions for broader participation in formal saving and investment. At the same time, these opportunities require stronger financial and digital literacy, trustworthy institutions, transparent products, and effective consumer protection.

Increasing investment activity should therefore be viewed as a systemic task. Financial education, financial inclusion, digital capability, market development, and consumer protection need to reinforce one another. A coordinated approach can improve household financial resilience and help mobilize domestic savings toward productive investment, supporting sustainable economic development.

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