

FINANCIAL LITERACY AND INVESTMENT BEHAVIOUR: KEY DETERMINANTS OF LIVING STANDARDS IN EASTERN EUROPE

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Abstract

The article investigates the relationship between financial literacy, investment behaviour and living standards in selected Eastern European member states of the European Union. The analysis combines a cross-country descriptive comparative approach with econometric techniques, including Ordinary Least Squares (OLS) regressions and an Instrumental Variables/ Two-Stage Least Squares (IV/2SLS) framework, in order to address the potential endogeneity between investment participation and income. Financial literacy is measured using a composite indicator derived from Eurobarometer 525 (2023), based on the proportion of respondents achieving a high financial literacy score. Investment behaviour is captured through investment participation, proxied by the share of equity and investment fund holdings in the household financial assets. Living standards are assessed using three indicators: median disposable income adjusted for purchasing power parity (PPP), income inequality measured by the Gini coefficient and the risk-of-poverty rate over the period 2010-2024. The econometric results reveal a positive and statistically significant association between financial literacy and key welfare indicators, while the direct effect of investment participation appears weaker in baseline specifications. In the instrumental variables framework, where investment participation is instrumented to mitigate potential reverse causality, the estimated impact on income remains positive but is more moderate in magnitude. Although the relatively small number of observations represents a limitation and warrants cautious interpretation, the findings highlight the important role of financial literacy in shaping investment behaviour and contributing to improved economic well-being. These results offer relevant insights for policymakers in countries characterized by lower living standards and comparatively low levels of financial literacy.

Keywords

investment behavior, financial literacy, living standards, investment share

JEL Classification

G11, G40, G53, I30

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