

# **Borradores de Economía - Financial literacy and Financial Wellbeing: evidence from Colombia in a high inflation environment**

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Publication Date: Thursday, 29 of February 2024 Abstract

This study, based on a nationally representative survey in Colombia, reveals that only 16.4% of the Colombian population can correctly answer the 3 key questions designed to assess individuals' financial knowledge, with significant variations among different demographic groups. The inflation's question, however, is answered correctly by 79% of respondents, making it the second country with the highest knowledge of this phenomenon among those studied recently on these topics. Furthermore, the data indicate that experience and having lived through inflationary episodes increase the probability of being more familiar with the concept of inflation. On the other hand, as expected, the collected information reflects that a higher level of education or socioeconomic status correlates positively with a better understanding of financial concepts. Likewise, it is evident that better performance in financial knowledge questions increases the accuracy with which individuals estimate future inflation, presumably enabling them to make more suitable consumption decisions for their well-being. However, despite individuals with better knowledge reducing their consumption in high inflation contexts, this is not reflected in an increased use of investment products that would allow them to protect themselves from the loss of purchasing power due to rising prices. The research concludes the importance and urgency of developing policies aimed at increasing economic and financial education, particularly in vulnerable groups, allowing people to save, invest, incur less debt, secure their assets, and thus ensure less poverty and greater equality, contributing to the overall well-being of the population throughout different life cycles.