

Islamic Financial Literacy and Its Impact on Community Economic Behavior

Noviria Sukmawati¹

¹ Universitas Bina Darma; noviria.sukmawati@binadarma.ac.id

ABSTRACT

Islamic financial literacy plays an increasingly important role in shaping responsible economic behavior. It enables individuals to understand and manage financial resources while adhering to Islamic principles, including the prohibition of riba (interest/usury), gharar (excessive uncertainty), and maysir (gambling), as well as promoting fairness, transparency, and social responsibility. This study aims to examine the concept of Islamic financial literacy and its impact on people's economic behavior based on previous research. The study employs a literature review method using a qualitative and descriptive-analytical approach. Sources include scientific journal articles, academic books, research reports, and relevant literature on Islamic financial literacy, financial behavior, Islamic financial inclusion, Islamic banking, investment, financial management, and Islamic economic principles. The literature was analyzed through identification, classification, comparison, interpretation, and synthesis. The findings indicate that Islamic financial literacy contributes to financial planning, saving, investment, financing decisions, consumption patterns, and the selection of Sharia-compliant financial products. Higher Islamic financial literacy tends to encourage more rational, prudent, and responsible economic decisions. However, literacy alone does not guarantee behavioral change, as income, education, social environment, access to financial services, culture, and individual preferences also influence behavior. Therefore, strengthening Islamic financial literacy requires improved access to Islamic financial services, effective educational programs, and supportive institutional and policy environments.

Keywords: Islamic Financial Literacy, Economic Behavior, Islamic Finance, Financial Inclusion, Islamic Economics, Financial Decision-Making

INTRODUCTION

Financial literacy has become an increasingly important issue in modern economic life. The development of increasingly complex financial products, rapid technological changes, and the growing variety of financial transaction mechanisms require individuals to possess adequate knowledge and skills to manage their financial resources. Financial decisions are no longer limited to basic activities such as saving and spending, but also include investment, financing, insurance, retirement planning, digital transactions, and risk management. Inadequate financial literacy can lead to inappropriate economic decisions. Individuals with limited financial knowledge may have difficulty distinguishing between productive and consumptive expenditures, evaluating financial risks, understanding financing costs, or selecting financial products that suit their needs and financial capacity. These conditions may increase the likelihood of excessive debt, poor financial planning, inappropriate investment decisions, and vulnerability to financial problems (Najib, 2024). The importance of financial literacy becomes even more significant in the context of Islamic economics. Islamic economics does not view economic activity solely from the perspective of material benefits. Economic activities are also associated with ethical, social, and religious values. Financial decisions are therefore expected not only to provide economic benefits but also to comply with Islamic principles. Islamic financial literacy can be understood as an individual's ability to understand financial concepts and make financial decisions based on Islamic principles. It includes

knowledge of Islamic financial products and institutions, understanding of halal and haram transactions, awareness of *riba*, *gharar*, and *maysir*, as well as knowledge of Islamic contracts such as *murabahah*, *mudharabah*, *musyarakah*, *ijarah*, and *qard*.

Islamic financial literacy also includes an understanding of the social dimension of wealth. In Islam, wealth is not merely an individual asset but also a trust (*amanah*) that should be managed responsibly. This perspective encourages individuals to use their wealth productively while considering the interests of others and society as a whole. The prohibition of *riba* represents one of the fundamental aspects of Islamic financial literacy. Individuals need to understand the implications of interest-based transactions and distinguish them from transactions structured according to Islamic principles. Without adequate knowledge, individuals may participate in financial transactions that are inconsistent with their religious and ethical values. In addition to *riba*, understanding *gharar* and *maysir* is also important. Excessive uncertainty and speculative activities can create significant financial risks and social consequences. Islamic financial literacy therefore provides individuals with a framework for evaluating financial transactions not only based on potential returns but also on their structure, risks, fairness, and compliance with Islamic principles. Islamic financial literacy is also closely related to financial inclusion. Individuals may have access to Islamic financial institutions and products, but access alone does not guarantee appropriate utilization. Without sufficient knowledge, individuals may be unable to understand the characteristics, benefits, costs, risks, and contracts associated with Islamic financial products (Zainullah et al., 2026).

Conversely, individuals with higher Islamic financial literacy may have greater confidence in using Islamic financial services. They may be more likely to select Islamic banking products, Islamic insurance, Islamic investment instruments, and other Sharia-compliant financial services based on their financial needs and religious considerations. Economic behavior represents another important dimension in understanding the role of Islamic financial literacy. Economic behavior refers to how individuals make decisions regarding income, consumption, saving, investment, borrowing, and other economic activities. Such behavior is influenced by various factors, including financial knowledge, attitudes, preferences, social norms, income, education, and access to financial services. From the perspective of Islamic economics, ideal economic behavior should reflect a balance between individual interests and social welfare. Consumption, for example, is permitted in Islam, but excessive consumption and wastefulness are discouraged. Similarly, wealth accumulation is permitted but should be accompanied by responsibility toward society through mechanisms such as *zakat*, *infaq*, and *sadaqah*. This perspective indicates that Islamic financial literacy has a potentially broader impact than conventional financial literacy. It not only provides individuals with the knowledge necessary to manage money but also introduces ethical and religious considerations into economic decision-making.

Islamic financial literacy can influence consumption behavior by encouraging individuals to distinguish between needs and wants. Individuals with adequate literacy may be more aware of the importance of avoiding excessive consumption and prioritizing spending according to financial capacity and beneficial purposes. Islamic financial literacy may also influence saving behavior. Saving can serve as an important mechanism for maintaining financial stability, preparing for future needs, and managing unexpected financial risks. Within the Islamic framework, saving should be managed through permissible instruments and should not involve prohibited transactions. Investment behavior is another area that may be affected by Islamic financial literacy (Muninggar et al., 2025). Islamic principles require investment activities to comply with Sharia principles, including the avoidance of prohibited sectors and transactions. Investors therefore need sufficient knowledge to evaluate whether an investment instrument is Sharia compliant and whether its risks are consistent with their financial objectives. Similarly, Islamic financial literacy can influence borrowing and financing

decisions. Individuals with sufficient knowledge may be more capable of evaluating financing needs, understanding contractual structures, and comparing different financing alternatives. This may reduce the likelihood of excessive indebtedness and inappropriate financial commitments.

The increasing development of Islamic finance has made these issues even more relevant. The growth of Islamic banking, Islamic capital markets, Islamic insurance, halal industries, digital Islamic finance, and various technology-based financial services has expanded the range of financial choices available to society. However, the growth of Islamic financial institutions and products does not automatically result in increased utilization. One of the challenges is the gap between the availability of Islamic financial products and people's understanding of these products. Some individuals may perceive Islamic financial products as more complicated, while others may have limited knowledge regarding the differences between conventional and Islamic financial mechanisms. This situation highlights the importance of strengthening Islamic financial literacy at the community level. Literacy programs need to move beyond the introduction of financial products and focus on developing practical financial decision-making skills. Islamic financial literacy should therefore be viewed as a multidimensional concept. It includes knowledge, skills, attitudes, awareness, and the ability to apply Islamic financial principles in everyday economic activities. Effective literacy should enable individuals not only to understand financial concepts but also to translate that knowledge into responsible behavior. The relationship between financial literacy and financial behavior has been widely discussed in previous studies. However, research focusing specifically on Islamic financial literacy and its influence on broader economic behavior remains an important area for further examination (Yusfiarto et al., 2023).

Previous studies have addressed various dimensions, including Islamic banking preferences, saving behavior, investment decisions, financial inclusion, and the use of Islamic financial products. The findings of previous studies also indicate that the relationship between literacy and behavior is not always direct. Knowledge is an important foundation, but behavioral outcomes may also depend on attitudes, social norms, economic conditions, income levels, accessibility, and individual experiences. Therefore, a literature review is important to synthesize existing findings and identify the mechanisms through which Islamic financial literacy can influence economic behavior. Such a review can also identify the limitations of existing research and provide directions for future studies. This study aims to analyze the concept of Islamic financial literacy and examine its impact on community economic behavior based on existing literature. Specifically, the study seeks to identify the dimensions of Islamic financial literacy, examine its relationship with financial and economic behavior, and analyze the factors that strengthen or weaken the influence of Islamic financial literacy on individual economic decision-making. The study is expected to contribute theoretically to the development of Islamic economics and Islamic finance literature. Practically, the findings may provide insights for financial institutions, educational institutions, policymakers, and community organizations in designing more effective Islamic financial literacy programs.

METHOD

This study employs a literature review method using a qualitative and descriptive-analytical approach. The literature review method was selected because the research focuses on identifying, examining, comparing, and synthesizing findings from previous studies concerning Islamic financial literacy and economic behavior. The sources of data consist of scientific journal articles, academic books, research reports, conference proceedings, and other relevant scholarly publications (Assyakurrohim et al., 2022; Connaway & Radford, 2021). The literature was selected based on its relevance to the main research topics, including Islamic financial literacy, financial behavior, economic behavior, Islamic financial inclusion, Islamic banking, Islamic investment, financial management, and Islamic economic principles. The

literature analysis was conducted through several stages. First, relevant literature was identified based on the main concepts of the study. Second, the literature was classified according to major themes, including the definition and dimensions of Islamic financial literacy, factors influencing literacy, financial decision-making, saving behavior, consumption behavior, investment behavior, financing behavior, and Islamic financial inclusion. Third, the findings of previous studies were compared to identify similarities, differences, and patterns. Fourth, the relevant concepts and findings were interpreted from the perspective of Islamic economics. Finally, the results were synthesized to develop a comprehensive understanding of the relationship between Islamic financial literacy and community economic behavior. The analysis focuses on conceptual relationships rather than statistical measurement. Therefore, this study does not employ primary data collection, surveys, interviews, or econometric testing. The results are presented descriptively based on the synthesis of relevant literature.

RESULTS AND DISCUSSION

RESULTS

The literature indicates that Islamic financial literacy is broader than general financial literacy because it combines financial knowledge with Islamic values and principles. Islamic financial literacy includes an individual's understanding of financial concepts, financial products, financial risks, and financial management, as well as the ability to evaluate these aspects according to Sharia principles. The dimensions of Islamic financial literacy generally include knowledge of Islamic financial institutions, understanding of Sharia-compliant financial products, knowledge of Islamic contracts, awareness of prohibited transactions, financial planning skills, and the ability to make financial decisions consistent with Islamic principles. Islamic financial literacy therefore involves both cognitive and normative dimensions. The cognitive dimension concerns financial knowledge and skills, while the normative dimension concerns the ability to distinguish between permissible and prohibited financial activities. The literature suggests that financial literacy can contribute to better financial planning. Individuals with adequate knowledge are generally more capable of identifying financial goals, managing income, controlling expenditures, and preparing for future financial needs. Within the Islamic framework, financial planning also involves considerations of halal income, permissible financial instruments, and social obligations. Individuals are encouraged to manage their wealth responsibly while considering obligations such as zakat and charitable giving. Financial planning based on Islamic principles can therefore encourage individuals to adopt a longer-term perspective rather than focusing solely on immediate consumption. Saving behavior is one of the areas most closely associated with financial literacy (Istianah & Nugroho, 2024).

Individuals with higher levels of financial knowledge tend to have greater awareness of the importance of preparing financial reserves and managing unexpected expenses. Islamic financial literacy adds the consideration that savings should be placed in permissible financial instruments. Individuals may consider Islamic savings accounts, Islamic deposits, or other Sharia-compliant instruments as alternatives to conventional interest-based products. The literature therefore suggests that Islamic financial literacy can influence not only the decision to save but also the selection of appropriate saving instruments. The literature indicates that financial literacy can influence consumption patterns. Individuals with adequate financial knowledge may be more capable of distinguishing between essential and non-essential expenditures and managing consumption according to their financial capacity. From the Islamic perspective, responsible consumption is associated with moderation and avoidance of wastefulness. Islamic financial literacy may therefore encourage individuals to evaluate whether their consumption decisions are beneficial, affordable, and consistent with Islamic values (Isa et al., 2024). This suggests that Islamic financial literacy may contribute to more

prudent consumption behavior, particularly when financial knowledge is supported by strong ethical awareness.

Investment is another area in which Islamic financial literacy plays an important role. The development of Islamic capital markets has created various investment alternatives, including Sharia-compliant stocks, sukuk, and Islamic mutual funds. Individuals need sufficient knowledge to understand investment risks, potential returns, investment horizons, and Sharia compliance. Without adequate literacy, investors may select financial instruments based solely on expected returns without considering the underlying business activities or contractual structures (Dewi & Ferdian, 2021). The literature suggests that higher Islamic financial literacy can increase awareness and confidence in making Sharia-compliant investment decisions. Financing decisions are also influenced by financial literacy. Individuals with adequate knowledge are better positioned to evaluate financing needs, understand contractual obligations, assess costs, and manage repayment capacity. In Islamic finance, understanding the underlying contract is particularly important. Different contracts have different structures, obligations, and risk-sharing mechanisms. Therefore, individuals need to understand the characteristics of contracts such as murabahah, mudharabah, musyarakah, and ijarah before entering into financial agreements.

Islamic financial literacy can thus reduce the possibility of inappropriate financing decisions and encourage more responsible financial commitments. The literature also indicates a relationship between Islamic financial literacy and financial inclusion. Knowledge and understanding may increase individuals' willingness to use Islamic financial services. However, literacy alone is not sufficient. Individuals also need access to affordable, appropriate, transparent, and easily accessible financial products. Geographic availability, digital infrastructure, institutional trust, income, and service quality may influence whether financial literacy is translated into actual financial behavior. Therefore, Islamic financial literacy and Islamic financial inclusion should be viewed as complementary dimensions. An important finding from the literature is that Islamic financial literacy has the potential to broaden the meaning of economic responsibility. Economic decisions are not viewed solely in terms of individual financial benefits but also in terms of their social and ethical consequences. Individuals with stronger Islamic financial awareness may be more conscious of fair transactions, responsible debt management, charitable giving, and avoiding financial practices that may harm others. This indicates that Islamic financial literacy may contribute to economic behavior that is not only financially rational but also ethically responsible (Wijaya et al., 2024).

DISCUSSION

The findings indicate that Islamic financial literacy can function as a bridge between financial knowledge and economic behavior. Knowledge provides individuals with the ability to understand financial choices, while Islamic principles provide a normative framework for determining which choices are appropriate. This combination is important because financial decisions often involve competing alternatives. An individual may face several financing options, investment opportunities, or consumption choices. Financial knowledge enables the individual to evaluate the economic consequences, while Islamic principles help determine whether the transaction is consistent with Sharia. Therefore, Islamic financial literacy can be understood as a form of decision-making capability that combines rational economic considerations with religious and ethical values. One of the most significant implications of Islamic financial literacy is its potential to improve the rationality of financial decisions. Individuals with better knowledge are more capable of evaluating financial risks, comparing products, calculating costs, and considering long-term consequences. However, rationality in Islamic economics differs from purely materialistic rationality. Economic rationality is not limited to maximizing individual utility but also incorporates ethical considerations and social

welfare. An economically rational decision in the Islamic framework should therefore consider whether the activity is halal, whether risks are appropriately understood, whether other parties are treated fairly, and whether the activity produces beneficial outcomes (Laelaturramadani, 2025).

Islamic financial literacy may contribute to healthier consumption behavior by encouraging individuals to prioritize needs over excessive wants. Islamic teachings emphasize moderation and discourage wastefulness. This principle is increasingly relevant in an environment characterized by aggressive digital marketing, easy access to consumer credit, and widespread online shopping. Without adequate financial awareness, individuals may be encouraged to engage in impulsive or excessive consumption. Islamic financial literacy can help individuals evaluate their purchasing decisions based on financial capacity and personal priorities. As a result, literacy can potentially contribute to more sustainable household financial management. Saving and investment behavior are important components of long-term financial resilience. Islamic financial literacy can strengthen individuals' understanding of the importance of financial preparation while ensuring that their financial activities remain consistent with Sharia principles. For savings, literacy can encourage individuals to establish emergency funds and prepare for future financial needs. For investments, literacy can help individuals distinguish between permissible and non-permissible investment instruments. The combination of financial planning and Sharia awareness may therefore support more responsible wealth management. Debt and financing represent another important aspect of economic behavior. Easy access to consumer financing can increase the risk of excessive debt, particularly when individuals do not fully understand repayment obligations and financial costs. Islamic financial literacy can encourage individuals to evaluate whether financing is genuinely necessary and whether repayment capacity is sufficient (Isa et al., 2024).

Understanding Islamic contracts can also help individuals recognize their rights and responsibilities. From the Islamic perspective, responsible financing should avoid unnecessary financial burdens and should be based on transparent agreements between the parties involved. Islamic financial literacy can potentially strengthen financial inclusion by increasing public confidence in Islamic financial institutions. Some individuals may avoid formal financial services because they do not understand the products or perceive them as complicated. Improved literacy can reduce this information gap. Individuals who understand Islamic financial products may be better able to identify services that meet their needs. Nevertheless, financial literacy programs should be accompanied by improvements in the accessibility and quality of Islamic financial services. If suitable products are unavailable or difficult to access, increased knowledge may not necessarily lead to increased participation. The development of financial technology has changed how people conduct economic transactions. Mobile banking, digital payments, online investment platforms, and other financial technologies have created new opportunities for financial inclusion. At the same time, digitalization creates new risks, including fraud, excessive consumption, financial scams, data breaches, and impulsive financial decisions (Anisa, 2026). Consequently, Islamic financial literacy needs to evolve into digital Islamic financial literacy. Individuals should understand not only Islamic financial principles but also how to apply them in digital environments.

For example, consumers need to be able to identify whether an online financial service is legitimate, understand its contractual structure, evaluate costs and risks, and avoid transactions that contain prohibited elements. The findings also demonstrate that financial literacy does not automatically produce behavioral change. The relationship between knowledge and behavior is influenced by several factors. Income is one of the most important factors. Individuals may understand good financial management practices but still struggle to implement them because of limited income. Education and financial experience also influence the ability to apply knowledge (Gunawan et al., 2021). Individuals who have greater exposure to financial products may be more confident in making financial decisions. The social

environment is another important factor. Family, community, peers, and cultural norms can influence consumption, saving, investment, and financing behavior. Access to financial services is also critical. Knowledge of Islamic banking or investment products will have limited practical impact if appropriate products are unavailable or inaccessible. Therefore, Islamic financial literacy should be considered part of a broader financial ecosystem rather than an isolated determinant of economic behavior. The concept of *maslahah* provides an important theoretical foundation for understanding the broader impact of Islamic financial literacy (Wijaya et al., 2024).

Financial decisions should ideally generate benefits while minimizing harm. From this perspective, the objective of Islamic financial literacy is not simply to increase the use of Islamic financial products. Its broader purpose is to help individuals manage wealth in ways that contribute to personal welfare and social well-being. For example, responsible investment can support productive economic activities, while appropriate consumption can reduce waste. Responsible financing can prevent excessive debt, while charitable giving can contribute to social redistribution. Therefore, Islamic financial literacy has the potential to support economic behavior that aligns individual financial interests with broader social objectives. The findings have implications for the development of Islamic economics. Strengthening Islamic financial literacy can contribute to a more informed and responsible society. For financial institutions, literacy programs can help consumers understand Islamic products and increase trust. For educational institutions, Islamic financial literacy can be incorporated into formal and informal educational programs. For policymakers, strengthening literacy should be integrated with financial inclusion policies, digital financial education, consumer protection, and the development of accessible Islamic financial products. Community organizations can also play an important role by translating Islamic financial concepts into practical knowledge that is relevant to households, entrepreneurs, students, and other community groups. Thus, improving Islamic financial literacy requires collaboration among financial institutions, educational institutions, government agencies, religious organizations, and society (Laelaturramadani, 2025).

CONCLUSION

This literature review concludes that Islamic financial literacy plays an important role in shaping community economic behavior. Islamic financial literacy combines financial knowledge, skills, awareness, and Islamic values, enabling individuals to make financial decisions that are not only economically rational but also consistent with Sharia principles. The literature indicates that higher Islamic financial literacy can contribute to better financial planning, more prudent consumption, stronger saving behavior, more informed investment decisions, and more responsible financing choices. It can also encourage individuals to use Sharia-compliant financial products and become more aware of the ethical and social dimensions of financial activities. However, Islamic financial literacy alone does not automatically lead to behavioral change. Economic conditions, income, education, social environment, access to financial services, technological development, and individual preferences also influence economic behavior. Therefore, literacy needs to be supported by an inclusive and accessible Islamic financial ecosystem. The development of digital financial services further emphasizes the importance of strengthening digital Islamic financial literacy. Individuals need to understand not only the principles of Islamic finance but also the risks and opportunities associated with digital financial transactions. From the perspective of Islamic economics, the ultimate objective of Islamic financial literacy is not merely to increase financial knowledge or encourage the use of Islamic financial products. More broadly, it is intended to encourage responsible wealth management, prevent harmful financial practices, strengthen individual and household financial resilience, and contribute to social welfare. Therefore, strengthening Islamic financial literacy should become an integral part of Islamic economic

development. Educational programs should emphasize practical financial skills, understanding of Sharia principles, responsible financial behavior, digital financial awareness, and the concept of *maslahah*. Overall, Islamic financial literacy can serve as an important foundation for developing a society that is financially capable, ethically responsible, and better prepared to manage economic challenges while maintaining compliance with Islamic principles.

REFERENCES

- Anisa, F. (2026). Microenterprise Digitalization and Islamic Financial Literacy for Sustainable Community Economic Empowerment: An Islamic Economic Law Perspective. *Global Sustainability and Community Engagement*, 2(3), 508–522.
- Assyakurrohim, D., Ikhrum, D., Sirodj, R. A., & Afgani, M. W. (2022). Metode Studi Kasus Dalam Penelitian Kualitatif. *Jurnal Pendidikan Sains Dan Komputer*, 3(1), 1–9. <https://doi.org/10.5281/zenodo.11180129>
- Connaway, L. S., & Radford, M. L. (2021). *Research methods in library and information science*. Bloomsbury Publishing USA.
- Dewi, M. K., & Ferdian, I. R. (2021). Enhancing Islamic financial literacy through community-based workshops: a transtheoretical model. *Journal of Islamic Accounting and Business Research*, 12(5), 729–747.
- Gunawan, A., Asmuni, A., & ... (2021). Islamic financial literacy and financial behavior: the case of muhammadiyah community in Medan city. *Journal of Accounting and ...* <http://repository.uinsu.ac.id/14036/>
- Isa, M. Y., Ahmad, N. H., Maamor, S., Ahmad, Z., & Bakar, N. A. A. (2024). The role of Islamic financial literacy from the perspective of Maqasid Al-Shariah: A case study of community of Naka in Kedah. *International Journal of Islamic Business*, 9(2), 26–42.
- Istianah, I., & Nugroho, L. (2024). Strengthening economic stability in muslim families: The role of islamic financial literacy post-covid-19. *Social and Economic Bulletin*, 1(3), 176–191.
- Laelaturramadani, L. (2025). Sharia Financial Literacy and Its Influence on Community Economic Behavior in the Digital Economic Ecosystem. *Journal of Social Science and Education Research*, 2(5), 224–232.
- Muninggar, P., Azka, M. S. T., Haq, F., & Febriyanto, A. (2025). The role of Islamic financial literacy in shaping economic behavior: Evidence from Generation Z. *Diponegoro Journal of Economics*, 14(2), 81–97.
- Najib, A. A. (2024). The role of islamic financial literacy in strengthening socio-religious resilience among coastal women. *Dirosatuna: Journal of Islamic Studies*, 7(1), 78–98.
- Wijaya, H. R., Hati, S. R. H., Ekaputra, I. A., & Kassim, S. (2024). The impact of religiosity and financial literacy on financial management behavior and well-being among Indonesian Muslims. *Humanities and Social Sciences Communications*, 11(1), 830.
- Yusfiarto, R., Nugraha, S. S., Mutmainah, L., Berakon, I., Sunarsih, S., & Nurdany, A. (2023). Examining Islamic capital market adoption from a socio-psychological perspective and Islamic financial literacy. *Journal of Islamic Accounting and Business Research*, 14(4), 574–594.
- Zainullah, M., Baitussalam, M. I., & Fiestighfarillah, S. (2026). The Effect of Islamic Financial Literacy Mentoring Programs on Improving Islamic Financial Literacy and Financial Behavior among Islamic Boarding School Students. *DAAR EL-TAMKIN: Journal of Community Empowerment*, 1(01), 63–78.



© 2025 by the authors. Submitted for possible open-access publication under the terms and conditions of the Creative Commons Attribution (CC-BY-SA) license (<https://creativecommons.org/licenses/by-sa/4.0/>).