

EXPLORING THE ANTECEDENTS OF RISKY CREDIT BEHAVIOR IN MSMES: THE IMPACT OF FINANCIAL LITERACY, SELF-FRAMING CONTROL, AND FINANCIAL STRESS

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Abstract

The attractive development of Financial Technology triggers the potential risky credit behavior and it raises concerns over the potential for increased credit risk, especially for MSMEs. The financial literacy raise as the critical factor related to the financial decision, including credit decision. However, the interaction mechanism between financial literacy and risky credit behavior is inadequately comprehended. Based on the Prospect Theory posits the psychological effect can influence the decision making process. This study investigates the mediating effect of self-framing control to explain the mechanism and financial stress to explain the certain circumstance with the relation of risky credit behavior, using 129 respondents of MSMEs in Banyumas Region. The result indicate the financial literacy have negative impact to risky credit behavior and mediate by self-framing control to explain those mechanism. In addition, the high level of financial stress stimulate the higher risky credit behavior. This study contributes to financial literacy literature by identifying the interplay of self-framing control, financial literacy, and credit behavior.

Keywords: Financial Literacy, Self-framing Control, Financial Stress, Risky Credit Behavior, MSMEs

INTRODUCTION

The rapid advancement of information technology in recent years has significantly impacted the financial sector known as financial technology (Zavolokina et al., 2016). Financial technology (fintech) provides customer-focused offerings and leverages Internet technologies to enhance accessibility and simple requirements (Gomber et al., 2017; Hidajat et al., 2019). The fintech sector is expanding swiftly, particularly in Indonesia (OJK, 2018). Indonesia remains a leading force in the global fintech landscape, consistently ranking as a top destination for fintech investment and adoption in Southeast Asia, with MSMEs comprising the primary user base for digital lending platforms (Hidajat et al., 2019).

In the context of MSMEs, obtaining credit is often crucial for business expansion, managing cash flow, or overcoming financial setbacks. Credit decisions made by financial institutions or lenders can significantly impact the survival and growth of SMEs (Ayyagari et al., 2011). Alternative financing solutions are proliferating and actively targeting MSMEs by providing more accessible funding than traditional banks (Beck & Demirguc-Kunt, 2006; Suryanto et al., 2020).

Fintech, such as Peer-to-Peer Lending (P2P) and crowdfunding, offers rapid access to capital without collateral requirements (Coakley & Huang, 2023). Nonetheless, it frequently lacks sufficient information to evaluate creditworthiness (Schuster, 2015). The attractiveness of these non-bank financial technology platforms is becoming popular, with easier procedures and faster approval timeframes. This makes fintech platforms attractive for MSME owners who have previously shown risk aversion in choosing funding (Gómez-Mejía et al., 2007).

Consequently, MSMEs have altered their behavior, shifting from dependence on self-capital funding (Sulistianingsih & Santi, 2023; Xiang & Worthington, 2015) to pursuing loans through crowdfunding and P2P lending, attributable to the accessibility and convenience provided by these platforms (Coakley & Huang, 2023; Suryanto et al., 2020). This behavioral shift indicates an improvement in financial inclusion within the MSME sector. However, it raises concerns over the potential for increased credit risk (French & McKillop, 2016).

Research indicates a strong association between inadequate financial literacy and debt issues. A deficiency in financial literacy is connected with increased debt burdens, elevated costs, loan defaults, and loan delinquency (Almenberg et al., 2021; Lusardi & Mitchell, 2023a; Lusardi & Tufano, 2015). We also indicate how the information presented and framed can influence the perspective and decision-making (Bockweg et al., 2018). Self-framing control denotes an individual's capacity to influence and regulate their perceptions, emotions, and reactions to external circumstances. Our research explores how these variables interact and affect in risky credit decision-making within SMEs.

While financial literacy equips individuals with the knowledge to make informed credit decisions, but financial stress may hinder their ability to apply it effectively. Even financially literate individuals may prioritize short-term survival over long-term financial stability in times of financial pressure, increasing the likelihood of risky borrowing practices (L. Liu & Zhang, 2021). By including financial stress as a moderating variable, we can better understand how external stressors influence the application of financial literacy and the propensity to engage in risky credit behavior. This helps identify more nuanced factors contributing to poor credit management, thus offering more tailored solutions for mitigating credit risks.

Despite the previous research investigating the interaction between financial literacy and risky credit behavior, less research has explored the interaction mechanism between financial literacy and risky credit behavior in the context of MSMEs (Lusardi & Mitchell, 2011). To our knowledge, the relationship between financial literacy and credit behavior remains unclear. Their decision-making regarding credit choices depends on their financial literacy as the ability to learn and apply financial knowledge affects both their cognition and decision preference. However, this literacy is a significant determinant in the selection of risky credit behaviors, impulsivity, obsessive purchasing, and credit card abuse. Research indicates that individual's understanding of credit cards, financial attitudes, and personal attributes impact their credit-seeking behavior (Aydin, A.E., Selcuk, 2019; Furnawati & Ferawati, 2025; Limbu, Y.B., Sato, 2019), yet limited studies have examined the mechanisms by which financial literacy affects credit behavior.

To address these gap, we utilize the disciplines of finance, sociology, and psychology to investigate the influence of financial literacy on their risky credit decision regarding online credit platform, while also exploring the possible mediating mechanisms and boundary conditions within these relationships. Our research offers contributions to the domain of financial literacy. Initially, we examine the relationship between financial literacy and high-risk credit behavior in Indonesian SMEs. Second, we contribute by finding the mediating impact financial framing control has on the relationship between financial literacy and hazardous credit behavior (Purwaningtyas et al., 2025b; Suhardi et al., 2025). Third, we examine the border conditions that provoke hazardous credit activity and determine that financial stress negatively moderates the relationship between financial literacy and risky credit behavior.

The subsequent sections of this article are structured as follows; section 2 presents the literature review and hypothesis formulation, section 3 describe the research method, variables and the data. In Section 4, we evaluate the hypotheses and present our empirical findings. Section 5 discusses the research findings and conclusions.

LITERATURE REVIEW AND HYPOTHESIS FORMULATION

Theoretical Background

This study employs a behavioral finance theory to evaluate the practical drivers of over-indebtedness. Previously the financial paradigm was anchored in the Efficient Market Hypothesis (EMH), which posits that markets are informationally efficient and agents are purely rational (Fama, 1970). However, the anomalies, irrational volatility and systematic deviations suggests that the rational agent model is insufficient for reality, including in credit decision making. It occurs because entrepreneurs have direct access to their daily cash flow data, whereas external lenders must rely on incomplete records or reports that may not show the full picture of the business's risks. In the Indonesian MSME sector, this gap is widened by the lack of formal bookkeeping and high-quality financial reporting (Purwaningtyas et al., 2025a; Tambunan, 2021). Otherwise, borrower cannot access full information to make an effective decision based on an incomplete financial picture provided by the lender, which significantly increases the risk of insolvency (Suryono et al., 2021).

Behavioral Finance Theory addresses these gaps by integrating psychology into economic analysis (Bondt et al., 1995). The bounded rationality is an idea that individu use a shortcut to deal with uncertainty due to the limitation of time, cognition, and the environment (Shefrin & Thaler, 1988). This action lead to biased in financial choice. The Prospect Theory (Kahneman & Tversky, 1979) highlight that individuals evaluate decision of perceived gains and losses relative to a specific reference point. Research by Costa (2021) demonstrates that information asymmetry can trigger risky financial decisions, even when financial literacy is adequate. This demonstrates the relevance of prospect theory in the context of the financial decision-making process. These findings suggest that individuals tend to be more risk-takers, when the information is incomplete. The framing effect can alter an individual's perception of information (Costa et al., 2021). In the case of credit decision making, if information is presented with a strong emphasis on potential opportunities, individuals tend taking the credit with the high risk.

Financial Literacy and Risky Credit Behavior

Financial literacy has been consistently associated with multiple facets of financial decision-making, particularly in preventing risky credit behavior (Lusardi & Tufano P., 2015). Individuals with greater financial literacy have enhanced capabilities to make informed judgments regarding credit utilization, savings, and expenditures. A deficiency in financial literacy frequently leads to poor financial choices, such as excessive credit expenditures, increased debt, or reliance on high-interest loans. Studies by Lusardi and Mitchell (2014) indicate that those with elevated financial literacy are more inclined to avoid high-interest debts and engage in better financial planning.

Risky credit behavior often entails the excessive or improper utilization of credit, potentially resulting in financial instability and debt build-up (Xiao et al., 2011). This behavior is shaped by multiple psychological and contextual factors, such as insufficient awareness of financial products, a failure to comprehend the ramifications of credit choices, and an inability to self-regulate spending behaviors (Grežo, 2020; Molosiwa & Holland, 2025). Behavioral economics plays a role in the context of financial behavior. It suggests that while individuals may have financial knowledge (financial literacy), behavioral biases (e.g., overconfidence and present bias) still affect their decision-making. Despite the extensive accessibility of financial education programs, numerous MSME proprietors lack enough financial awareness, frequently resulting in their involvement in critical lending practices (Grežo, 2020; Ramalho & da Silva, 2009). A deficit in comprehending the significance of interest rates, repayment schedules, and the repercussions of defaulting on loans might cause MSME owners to make poorly-informed judgments when borrowing. These imprudent choices frequently lead to acquiring high-interest loans or accumulating unmanageable debt, which may be averted via improved financial planning and literacy (Lusardi & Tufano P., 2015). Moreover, insufficient awareness of accessible financial products may compel MSMEs to resort to informal lenders, who frequently

impose excessive interest rates and poor conditions, thus increasing their financial instability (Wasiuzzaman & Nurdin, 2019).

The inverse correlation between financial literacy and risky credit behavior is particularly evident in Indonesia's MSME sector, where insufficient financial knowledge correlates with business susceptibility and credit mismanagement. Entrepreneurs lacking adequate financial literacy are prone to neglect the long-term consequences of credit, prioritizing short-term requirements and current cash flow issues (L. Liu & Zhang, 2021). This myopia frequently results in excessive borrowing or dependence on loan sources misaligned with their repayment capabilities, thereby jeopardizing their enterprises. Consequently, these MSMEs are more vulnerable to financial crises, diminished profitability, and even business closure, underscoring the imperative for enhanced financial literacy to alleviate such risks and promote sustainable growth. Moreover, inadequate financial literacy will promote impulsive decisions, hence heightening the probability of hazardous credit behavior (Aydin, A.E., Selcuk, 2019). Consequently, we put forth the subsequent hypotheses:

H1: Financial literacy is negatively influence to risky credit behavior in MSMEs

Mediating effect of self-framing control

Prior research has demonstrated that financial literacy influences individual financial behavior, hence impacting cognition and our capability to filter external information (Costa et al., 2021; Limbu, Y.B., Sato, 2019; Qerimi et al., 2023). Self-framing control refers to an individual's ability to manage and regulate how they perceive, interpret, and respond to various situations as posited by Prospect Theory (Tversky & Kahneman, 1981). This cognitive process is crucial in shaping decisions, emotions, and behaviors, particularly when individuals face complex or challenging circumstances. Essentially, self-framing control allows a person to consciously construct and adjust their mental frameworks, enabling them to influence their reactions and actions more adaptively (Costa et al., 2021). This skill is particularly valuable when navigating uncertainties or making decisions requiring high emotional regulation. Those with strong self-framing control are better equipped to reframe challenges as opportunities and increase their resilience in the face of stress.

Financial literacy is closely linked to self-framing control, as it impacts how individuals frame financial decisions and challenges (Hastings et al., 2013; Rehman et al., 2014). Furthermore, individuals with higher financial literacy can better frame financial setbacks or mistakes as learning experiences, enhancing their capacity for financial resilience (Costa et al., 2021). Thus, financial literacy and self-framing control are mutually reinforcing, enabling people to make more informed and emotionally balanced decisions in managing their finances. Thus, we propose the following hypothesis:

H2: Financial literacy is positively influence to self-framing control in MSMEs

Individuals possessing elevated self-framing control are inclined to assess possibilities and problems with greater rationality (Bockweg et al., 2018; Costa et al., 2021; Ganzach & Schul, 1995; Hastings & Tejada-Ashton, 2008; Jennings et al., 2019). They will neither blindly pursue short-term benefits nor be easily deceived by false information (Xiao et al., 2011). Furthermore, self-framing control influences individuals' cognitive processes, enabling them to accurately assess the returns and risks associated with investment and consumption decisions, motivating them to make prudent financial choices that yield long-term advantages. Self-framing control denotes an individual's capacity to actively regulate their interpretation and reaction to information, especially in decision-making contexts (Costa et al., 2021). This control mechanism helps alleviate the biasing effects of framing, which arise when the display of information affects decisions in a manner that may not conform to reason (Rafinda et al., 2024). Through self-framing control, individuals can mitigate cognitive biases, like loss aversion and anchoring, that frequently stem from the external framing effect (Tversky & Kahneman, 1981). Individuals with financial literacy are more adept at identifying when framing methods influence their decisions, enabling them to make better-informed choices (Lusardi & Mitchell, 2014). This capacity to internally reinterpret information reduces the impact of skewed

external signals, resulting in more logical and objective decision-making (Khan et al., 2024). Thus, we propose the following hypothesis:

H3: Self-framing control is negatively influence to risky credit behavior in MSMEs

Recent psychology and behavioral economics studies indicate that framing bias significantly influences the connection between individual knowledge and action—the effect of financial literacy to decrease the risky credit decision. Certain studies have determined that the financial literacy of college students indirectly influences consumer credit (Limbu, Y.B., Sato, 2019). Perry and Morris (2005) observed that self-control mediates the association between financial knowledge and financial management behaviour (Perry & Morris, M. D., 2005).

The relationship between financial literacy and risky credit behavior can be understood as mediated by self-framing control, meaning that financial literacy alone does not directly reduce risky behavior in credit decisions (Hamid, 2025). Instead, the ability to manage and adjust how financial situations are framed and perceived plays a crucial role. For instance, financial literacy equips individuals with the tools to understand the financial terms and risks involved in credit agreements. However, self-framing control allows them to reframe the situation in a more long-term, cautious perspective. Through this cognitive regulation, individuals can resist framing effects, such as the temptation of easy credit or immediate rewards, and make more rational decisions that align with their long-term financial well-being. In essence, self-framing control acts as a mediating mechanism by reducing the emotional and cognitive biases that might otherwise lead to risky credit behaviors, such as overborrowing or neglecting the long-term impact of debt (Kahneman & Tversky, 1991; Lusardi & Tufano, 2015). Therefore, enhancing self-framing control is key in translating financial knowledge into better and more responsible credit behavior. Consequently, we put forth the subsequent hypotheses:

H4: Self-framing control mediates the relationship between financial literacy and risky credit behavior in MSMEs

Moderating effect of financial stress

Various studies have indicated that financial stress has a significant impact on consumer credit behavior (Held, 2018; Wang & Pullman, 2019; Xu & Rashid, 2023). Financial stress can lead to mental health problems such as jealousy, anxiety, and depression. When they face economic challenges can significantly moderate the relationship between financial literacy and risky credit behavior (Cadaret & Bennett, 2019; Wang & Pullman, 2019). While financial literacy provides individuals with the necessary knowledge to make informed decisions regarding credit and debt management, financial stress can cloud their judgment and reduce their ability to apply this knowledge effectively (Xu & Rashid, 2023). When individuals are stressed about their finances, they may prioritize immediate relief or short-term solutions, such as taking on high-interest debt or engaging in risky borrowing behaviors, even when they understand the long-term consequences. Therefore, financial literacy is essential for understanding the risks associated with credit, but financial stress may act as a psychological barrier that weakens the influence of literacy on actual behavior.

Moreover, the moderating role of financial stress highlights the complexity of financial decision-making. In situations where individuals are experiencing financial stress, they may be more susceptible to cognitive biases and framing effects, which can skew their financial choices (Lusardi & Mitchell, 2023b; Purwaningtyas et al., 2024). Thus, financial literacy alone may not be sufficient to mitigate risky credit behavior when stress is present. Hence, it is proposed:

H5: Financial stress negatively moderates the direct effect of financial literacy on risky credit behavior in MSMEs.

RESEARCH METHODS

The data from this research were collected via an online survey and interviews with the owners of MSMEs in the Banyumas Region. We conducted a comprehensive survey and acquired 129 responses from the questionnaires filled by MSME owners using a random sampling method. For this research, we selected only MSME owners with experience with online and conventional credit. As shown in Table 1, 70 male owner MSMEs (54%) and 59 owners (46%) participated in the survey.

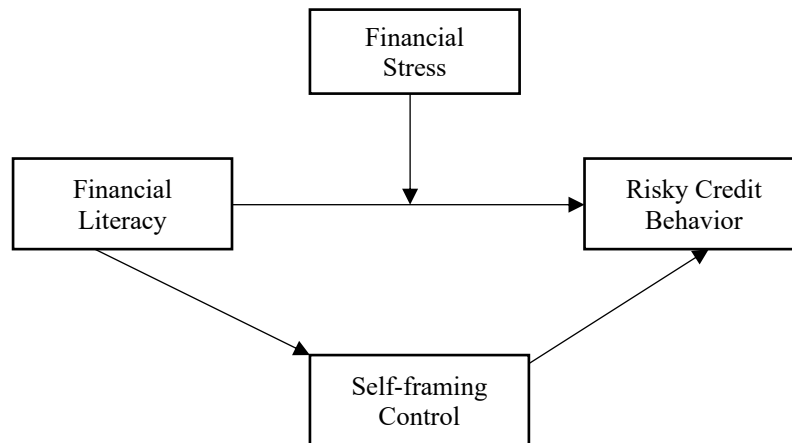


Figure 1. The conceptual model

Measures

a. Dependent Variable

We assessed risky credit conduct by examining the two aspects of risky payment and borrowing (Fan & Xiao, 1998; Kurowski, 2021; Limbu, Y.B., Sato, 2019). The two reverse-coded items utilized to assess risky payment behavior were timely bill payment and complete bill payment. The metrics employed to assess risky borrowing behavior encompassed impulsive borrowing and credit misuse. The responses utilized a five-point Likert scale (1 = never, 5 = very often).

b. Independent Variable

We defined financial literacy as an objective financial literacy was tested using the quiz score of five credit-related questions (0 = no correct answer is acquired, 5 = all answers are correct), linked to credit knowledge (Lusardi & Tufano, 2015; Xiao & Porto, 2017). It contains a quiz about interest, compound interest, potential debt trap, and debt options.

c. Mediating and Moderating Variable

We measure the mediating variable based on the option of Kahneman and Tversky (1981), who presented information that contains different perspectives of gain and loss about credit. In this study, framing was measured by analyzing respondents' choices between an inevitable gain and a risky option with a higher potential for loss, in line with prospect theory. If respondents consistently chose the same option across both gain and loss frames, they were considered to be unaffected by framing. Conversely, a preference for the sure gain over a risky option with a potential for greater loss indicated susceptibility to framing, as predicted by prospect theory's reference dependence and loss aversion.

Financial stress was assessed using five items. Participants were asked to specify their level of agreement with certain statements concerning their financial stress (Heckman et al., 2014; L. Liu & Zhang, 2021; Xiao et al., 2011). The constructs were evaluated using a five-point Likert scale (1 = strongly disagree, 5 = strongly agree).

RESULTS AND DISCUSSION

The sample comprised 129 respondents from MSMEs located in Banyumas Region. The participants were selected to reflect diverse demographics and financial backgrounds. The respondent profile is as follows:

Table 1. Demographic characteristics of the respondent

Variables	Frequency	Proportion
Gender		
Male	70	54%
Female	59	46%
Education		
Bachelor Degree	39	30%
High school	52	40%
Vocational training	38	29%
Business size		
Micro	110	85%
Small	19	14%

The following table presents the descriptive statistics for the key variables in the study, including Financial Literacy, Self-Framing Control, Risky Credit Behaviour, and Financial Stress. The variables were measured using Likert scales ranging from 1 (Strongly Disagree) to 5 (Strongly Agree), except for Financial Literacy and Self-framing Control, which was tested with a 0-5 score on credit-related questions.

Table 2. Statistics Descriptive

Variable	Mean	SD	Minimum	Maximum
Financial Literacy	3.45	0.89	0	5
Self-Framing Control	3.78	0.72	1	5
Risky Credit Behavior (Risky Borrowing)	2.68	1.04	1	5
Risky Credit Behavior (Risky Payment)	2.85	1.08	1	5
Financial Stress	3.12	0.93	1	5

Financial Literacy had a moderate mean of 3.45 (SD = 0.89), indicating that MSME owners possessed average financial knowledge. Self-framing control exhibited a higher mean (3.78, SD = 0.72), suggesting respondents were generally less susceptible to framing effects. Risky Credit Behavior, measured in two aspects (Borrowing and Payment), showed moderate levels of risky

behavior, with means of 2.68 and 2.85, respectively. This suggests a tendency towards cautious credit behavior but with some engagement in dangerous practices. Financial Stress had a mean of 3.12 (SD = 0.93), indicating moderate stress levels among respondents related to their financial situations.

Hypothesis Testing

The hypotheses were tested using Structural Equation Modelling (SEM), with path analysis to examine relationships between the variables. The results from the SEM model are summarized below:

Table 3. Hypothesis Testing Result

Hypothesis	Path Coefficient (β)	Standard Error (SE)	t-value	p-value	Result
H1	-0.35	0.09	-3.89	< 0.001	Supported
H2	0.40	0.08	5.00	< 0.001	Supported
H3	-0.22	0.06	-3.67	0.004	Supported
H4	-0.28 (Indirect Effect)	0.09	-3.11	0.002	Supported
H5	-0.15 (Interaction Effect)	0.07	-2.14	0.015	Supported

Table 3 presents the results of hypothesis testing, highlighting the relationships between financial literacy, self-framing control, financial stress, and risky credit behavior in MSMEs. The path coefficients (β) indicate the strength and direction of these relationships, with all values showing significant effects.

H1 reveals a statistically significant negative relationship between financial literacy and risky credit behavior ($\beta = -0.35$, $p < 0.001$). This result provides empirical support for the hypothesis that increased financial literacy is associated with a reduction in engagement with risky credit behaviors. H2 confirms a positive relationship ($\beta = 0.40$, $p < 0.001$) between financial literacy and self-framing control, suggesting that more financially literate individuals are better at regulating their financial decisions.

In line with these findings, H3 indicates that self-framing control is inversely related to risky credit behavior ($\beta = -0.22$, $p = 0.004$), underscoring its role in mitigating risky decision-making. H4 provides further insight by confirming the mediating effect of self-framing control on the relationship between financial literacy and risky credit behavior, with a significant effect ($\beta = -0.28$, $p = 0.002$), suggesting that the influence of financial literacy on risky credit behavior is, in part, mediated by an individual's ability to regulate their financial decisions.

Finally, H5 demonstrates that financial stress significantly moderates the relationship between financial literacy and risky credit behavior ($\beta = -0.15$, $p = 0.015$). Specifically, the presence of financial stress weakens the positive influence of financial literacy on the reduction of risky credit behaviors, highlighting the importance of addressing financial stressors in the context of financial decision-making.

Discussion

The negative relationship between financial literacy and risky credit behavior, aligning with the work of Lusardi and Mitchell (2014), who argue that individuals with better financial literacy are more likely to make informed financial decisions and avoid risky credit behaviors. Similarly, Xiao et al. (2011b) found that higher financial literacy reduces the likelihood of engaging in credit-related risks.

The rise of risky credit behavior among MSMEs necessitates an interdisciplinary analysis encompassing economics, finance, and psychology. This article aims to explain the internal mechanism of the relationship between financial literacy and risky credit decisions and the specific condition of financial stress. A critical contribution of this study is to highlight the mediating effect of self-framing control on the relationship between financial literacy and risky credit behavior. In line with the Prospect Theory, our findings reveal that higher financial literacy can enhance rationality when providing the information framed with a different perspective. The mediating role of self-framing control in the relationship between financial literacy and risky credit behavior expands on Prospect Theory, which emphasizes how framing effects influence decision-making. Financial literacy is necessary but not sufficient. In an era of massive and psychologically engineered credit offerings, self-control framing functions as the mechanism that transforms knowledge into behavior making it an irreplaceable mediator in the prevention of risky credit conduct.

The negative moderation effect of financial stress on the relationship between financial literacy and risky credit behavior supports the findings of Heckman et al. (2014), who suggest that financial stress undermines the beneficial effects of financial literacy. Higher financial stress can lead to taking risky credit decisions. This is also in line with the concept of Prospect Theory that posits under the uncertainty of loss, individuals will take more risk (risk taker) in the decision-making process. This highlights the importance of psychological factors, such as financial stress, in influencing financial decisions.

Conclusion

This study concludes that while financial literacy is a fundamental prerequisite for reducing risky credit behavior among Indonesian MSMEs, it is not a standalone solution. Our empirical findings demonstrate that self-framing control acts as a critical cognitive bridge that translates financial knowledge into responsible credit decisions by mitigating the biasing effects of external information framing. Furthermore, we found that the protective benefits of financial literacy are significantly diminished when MSME owners face high levels of financial stress, which triggers a shift toward short-term survivalist borrowing.

To foster sustainable growth in the MSME sector, interventions must go beyond teaching basic financial concepts. Policymakers and financial institutions should develop holistic training programs that combine technical literacy with psychological resilience and self-regulation techniques to help entrepreneurs navigate economic uncertainty without resorting to hazardous credit practices.

Implication

This study's results contribute to the growing body of knowledge on MSMEs' financial behavior, providing valuable insights into how financial literacy, self-framing control, and stress interact to influence risky credit behavior. The findings reveal several essential contributions to the literature on financial decision-making within MSMEs.

First, the study confirmed that financial literacy plays a critical role in reducing risky credit behavior, as MSME owners with higher financial knowledge tend to make more informed, cautious financial decisions. This result supports existing research on the positive effects of financial literacy in mitigating financial risk-taking behaviors, particularly in credit decisions (L. Liu & Zhang, 2021; Lusardi & Tufano, 2015). Second, self-framing control emerged as a significant mediator between financial literacy and risky credit behavior. MSME owners with better financial literacy exhibited stronger self-regulation and less susceptibility to framing effects, leading to more prudent credit decisions. These findings align with Prospect Theory and suggest that self-framing control is a crucial psychological mechanism in mitigating risky financial behavior. However, the moderating effect of financial stress provided the most intriguing insight. As hypothesized, financial stress weakened the relationship between financial literacy and risky credit behavior. This indicates that while financial literacy is a protective factor, high levels of financial stress can undermine its effectiveness, leading MSME owners to engage in riskier financial behaviors despite their knowledge.

These findings have significant implications for policymakers, financial educators, and MSME support organizations. Financial literacy programs targeted at MSME owners should consider enhancing knowledge and addressing the psychological aspects of economic decision-making, such as self-regulation and stress management. Moreover, policymakers could develop tailored interventions that alleviate financial stress to help MSMEs utilize their financial knowledge and improve their credit behavior.

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