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Unraveling the Financial Fabric: Understanding Indian Money Management, Debt Traps, and EMIs

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Abstract
This review paper delves into the multifaceted financial challenges encountered by Indians and presents proposed solutions to mitigate these issues. It offers an extensive analysis of the prevalent financial problems plaguing various segments of Indian society, including the middle class, youth, and urban populations. Through a comprehensive examination of existing literature and empirical evidence, the paper highlights the detrimental impact of factors such as inadequate financial literacy, high levels of debt, and limited access to financial resources. In response to these challenges, the paper proposes several actionable ideas to enhance financial awareness and stability among Indians. Suggestions include integrating financial education into school curricula, conducting workshops and seminars to promote financial literacy, and leveraging technology to improve access to financial services. Furthermore, the paper advocates for policies aimed at reducing debt burdens, fostering a culture of saving and investment, and enhancing consumer protection measures.
By synthesizing existing research and offering pragmatic solutions, this review paper aims to inform policymakers, educators, and financial institutions about the pressing financial issues facing Indians and to inspire collective efforts towards fostering greater financial well-being and resilience within the population.

Keywords: Financial literacy, finance management, Purchasing power parity.

Introduction
Money management is the cornerstone of financial well-being and stability. It encompasses a range of strategies and practices aimed at effectively controlling and utilizing financial resources to achieve both short-term and long-term goals. Whether it's budgeting, saving, investing, or planning for retirement, mastering the art of money management is essential for individuals and families alike. In this guide, we'll explore the fundamental principles of money management, empowering you with the knowledge and tools to make informed decisions, maximize your financial resources, and pave the way for a secure and prosperous future.
Indian youth often face challenges in financial management due to a lack of financial literacy and experience. Many enter adulthood without a solid understanding of budgeting, saving, and investing, leading to poor financial decision-making. The pressure to keep up with societal expectations, coupled with easy access to credit and peer influences, contributes to impulsive spending habits and debt accumulation. Moreover, the absence of formal financial education in school curricula leaves them

unprepared to navigate complex financial landscapes. Without proper guidance and education, Indian youth struggle to build financial resilience and secure their long-term financial well-being.
Credit cards can lead to the accumulation of debt through their convenient accessibility, high credit limits, deferred payment options, minimum payment requirements, and accruing interest charges. The ease of swiping a card often encourages impulsive spending behavior, especially when individuals perceive the available credit as disposable income rather than borrowed funds. High credit limits can tempt users to exceed their financial means, while deferred payment features may delay addressing outstanding balances, resulting in prolonged debt accumulation. Minimum payment requirements, though providing temporary relief, often represent only a fraction of the total balance, leading to increased interest charges and extended repayment periods if not managed diligently. Additionally, the compounding nature of interest on unpaid balances can substantially inflate the overall debt owed. Promotional offers and rewards programs, while enticing, may also encourage excessive spending to qualify for incentives, further exacerbating debt levels if not carefully monitored. Thus, while credit cards offer financial flexibility and benefits, responsible usage and vigilant repayment practices are essential to avoid falling into the trap of escalating debt.
Other financial lending schemes can create debt that is difficult to repay due to several factors. High-interest rates, hidden fees, and predatory lending practices often result in borrowers accumulating more debt than they can manage. Additionally, inadequate borrower protections and lack of transparency can lead to misunderstandings and exploitation. Moreover, borrowers may face unexpected life events, such as job loss or medical emergencies, further complicating their ability to repay. Without proper financial education and safeguards in place, individuals can easily become trapped in a cycle of debt, struggling to break free and regain financial stability.

Literature Review

Sobesh Kumar (2013), this paper reports investigation of a study on the influence of various socio-demographic factors on different dimensions of financial literacy among the working young in urban India. While the influence of several factors such as gender, education and income is similar to what has been reported in other contexts, a few factors specific to India, such as joint-family and consultative decision making process are found to significantly influence financial literacy. The study also investigates the relationship between the dimensions of financial literacy. Adding to the growing empirical understanding of financial literacy across countries, the study provides an analytical basis for enunciating policy for enhancing financial literacy of youth in India.[3]
Sumit Aggarwal (2015), This study presents insights into financial literacy and financial planning behaviors, drawing from a financial advisory program in India. We analyze survey data, focusing on three standard questions used to assess financial literacy. Our examination includes dissecting the data by specific demographic and socioeconomic categories and comparing responses. Additionally, we investigate investment behavior, liability decisions, risk tolerance, and insurance usage among program participants. Our findings suggest that a significant portion of respondents demonstrate financial literacy, as evidenced by their responses regarding interest rates, inflation, and risk/diversification. However, there are notable differences observed across demographic and socioeconomic groups. Furthermore, we gather supplementary information on participants' financial inclinations, such as risk tolerance, investment preferences, and goals, and explore their correlation with financial literacy.[1]

Charan Singh (2015), the discussion emphasizes the necessity of establishing a distinct debt management office, separate from the monetary authority. Debt management aims to procure resources from the market at minimal cost while mitigating risks, while the monetary authority focuses on achieving price stability. Prior to the 2008 financial crisis, the segregation of debt and monetary management was widely accepted, particularly by countries with liberalized financial markets and significant government debt burdens. They sought to adopt professional debt management practices to reduce costs and provide clear policy signals to the market.[5]

Garima Baluja (2016), Amidst the introduction of numerous financial and economic reforms, the market landscape is expanding, accompanied by the emergence of various new financial products. This development underscores the importance for individuals to strategically plan and invest their finances. Put differently, financial planning is becoming indispensable for ensuring the financial well-being of individuals. While the significance of financial planning is widely recognized, the importance of financial literacy, particularly among women, still lags behind. Furthermore, there is limited documentation regarding the level of financial literacy among Indian women. Therefore, there is a pressing need to delve into the issue of financial literacy among women in India in detail. This paper aims to address this gap. Despite the necessity for women to have equal decision-making power in financial matters, many Indian women encounter cultural, financial, psychological, and physical barriers that impede their journey towards financial literacy.[2]

Rohit Bagarthy (2019), the study aims to explore the connection between fiscal deficit and inflation in India from 1981 to 2017, considering variables such as fiscal deficit, inflation, GDP, imports, money supply, capital inflow, exchange rate, and interest rate. Additionally, it seeks to assess the government's potential debt trap.

Ensuring the stationarity of time series variables is crucial to avoid obtaining misleading outcomes with non-stationary data. Hence, the study employs the Augmented Dickey-Fuller (ADF) test to verify the stationarity of the variables, employing this advanced technique to mitigate heteroscedasticity.

The research utilizes a Vector Autoregression (VAR) model to analyze the relationship between fiscal deficit and inflation in India. Granger-causality and Johansen-cointegration tests are applied to discern causal and long-term relationships among the variables. Furthermore, tables and figures are utilized to illustrate the government's debt trap.

The ADF test reveals that inflation is stationary at the level, whereas all other macroeconomic variables are stationary at the first difference. This suggests that these variables not only depend on lagged values of other variables but also on their own past values. In the VAR model, all variables exhibit a significant positive impact on inflation at the 1% level of significance, except for the exchange rate, which significantly reduces inflation by 0.89% at the same level of significance. Notably, the study observes a significant inverse relationship between imports and inflation.

The Granger causality test indicates a bidirectional causal relationship between the variables, while the Johansen cointegration test reveals a long-term association among them. Following the global financial crisis of 2008, both fiscal deficit and interest payments have exhibited an increasing trend, raising concerns about the government's potential debt trap, where borrowing is done for repayment purposes.[6]

Madhu Serawat (2019), the article aims to empirically investigate the relationship between human capital and income inequality in India within a non-linear and asymmetric framework. To capture both long-term and short-term asymmetries, the study employs the non-linear autoregressive distributed lag approach, utilizing relevant data spanning from 1970 to 2016.

The findings suggest that the expansion of education plays a significant role in reducing high income inequality. Specifically, an increase in the average years of schooling correlates with a more equitable distribution of income. Conversely, factors such as high economic growth, inflation, and trade openness contribute to unequal income distribution.[7]
The results of the asymmetric causality test indicate that there is a unidirectional causality running from female human capital, economic growth, and inflation to income inequality.
From a policy standpoint, the article proposes that expanding education should be leveraged as a potent tool to mitigate income inequality, with a particular emphasis on enhancing the quality of education. Additionally, policies aimed at providing social benefits, promoting inclusive education, offering training opportunities for unskilled workers, and ensuring price stability are recommended to achieve fair income distribution in India.[7]
Kamakhya Singh (2022), The COVID-19 pandemic has underscored the financial and economic vulnerability faced by the public, particularly threatening the financial stability of households, especially those belonging to the low-income group in developing nations like India. Evaluating household financial vulnerability has become increasingly crucial, particularly in impoverished and developing regions. This article aims to gauge the extent of household financial vulnerability in India, drawing from a comprehensive household survey conducted nationwide.
To achieve this, the paper introduces a Financial Vulnerability Index (FVI) derived from three self-reported parameters: (1) the ability to meet financial obligations, (2) perception of income instability, and (3) perception of expenditure unpredictability. Subsequently, the study explores the influence of various behavioral and socioeconomic factors on this proposed financial vulnerability index using fractional probit regression analysis.
The findings of the research reveal that higher levels of financial knowledge, improved money management capabilities, and reduced impulsivity in financial behavior correlate with decreased financial vulnerability. The paper suggests the implementation of targeted financial literacy programs for vulnerable segments of society to enhance their financial acumen, bolster money management skills, and mitigate impulsivity. This approach is believed to empower individuals to make informed financial decisions, thereby promoting their overall financial well-being.[5]
Separating debt management is crucial for safeguarding the autonomy and integrity of the central bank, ensuring transparency and accountability, and enhancing debt management by assigning it to specialists proficient in contemporary risk management techniques. In India, both the central and state governments, along with the Reserve Bank of India (RBI), handle debt management responsibilities.
The division of debt management would concentrate efforts on the asset-liability management of government liabilities, conduct thorough risk assessments, and enable the government to prioritize public expenditure by raising awareness of interest costs. Moreover, it would facilitate the borrowing program, which would need to be executed independently of regulatory or supervisory authority support. This could potentially broaden the investor base and foster a market-friendly yield curve.[5]

Case Study
The Banking system in India Lends out money to people according to their Credit Score, their financial condition and the interest rate ranges form 7% to 12%. Therefore middle class people who earn less than 25k a month which also happens to be 90% of the population are stuck in a dire situation. During the Covid 19 crisis 7 million people lost their jobs. They were unable to pay bills and sustain themselves,

eventually they resorted to loan app without truly understanding how dangerous it was. The apps did not check for Credit score or did a KYC which suited desperate borrowers.

Offering easy money to gullible borrowers regardless of their creditworthiness, these loan sharks operate through recovery agents using arm-twisting tactics. Cases of suicides linked to such harassment are on the rise.

When P. Sunil, a software engineer in Hyderabad, was sacked in the middle of the pandemic, he looked but couldn't find work.And when he defaulted on loans from money lending apps, the hounding began by debt collectors.They sent out messages about him to everyone on his contacts list. On 18 December, Suresh took his own life. He was just 28.

Earlier this month, Abhishek Makwana, a writer on the popular sitcom Taarak Mehta Ka Ooltah Chashmah, killed himself after being harassed for repayment by a loan app

Following a number of suicide cases in Hyderabad, Telangana's cybercrime cell released a list of "fake" loan apps that lure borrowers by offering instant loan, according to top police sources in the Telangana cybercrime department.

A report of the Reserve Bank of India's (RBI) Working Group on digital lending, released in November, identified 600 illegal lending apps operating in India last year. There were approximately 1,100 lending apps available for Indian Android users across more than 80 application stores from January 01, 2021 to February 28, 2021, it said.

Kissht	cashcred.	Easycredit.
Cashbean	Gotocash.	Werupee
Moneed	cashmama.	Okrupee
Momo	cashtm.	Ocash
Nanocred.	Loanfix.	Moneymore
Getrupee.	Stashfin.	Rupeehere
Cashin.	Lendkaro.	Rupeehome
Loan front.	Credicxo.	Cashday
Cashbus.	Robocash.	Cashtrain
ICredit.	Credime.	Fastrupee
Erupee.	Instarupee.	Cashmore
Ucash.	Irupee.	Cashbull
Cash up.	Morerupee.	Lendenclub
Mpokket.	Antcash.	Dhanadhan
Loanbro.	RsRush.	Rupeeplus

Figure 1. Banned Chinese Apps by the RBI

Proposal

Indian youth can enhance their financial awareness through targeted education and practical experience. Incorporating financial literacy programs into school curricula can equip students with essential money management skills from a young age. Additionally, workshops, seminars, and online resources can provide valuable insights into budgeting, saving, investing, and debt management. Encouraging youth to engage in real-world financial activities, such as opening a bank account, tracking expenses, and investing in low-risk assets, fosters practical understanding and responsible financial behavior. By fostering a culture of

financial responsibility and empowerment, Indian youth can navigate financial challenges with confidence and build a secure financial future.

The Middle class can enhance financial awareness by prioritizing financial education and adopting proactive money management strategies. Engaging in regular budgeting and expense tracking helps identify spending patterns and areas for saving. Seeking out financial literacy resources, such as books, workshops, and online courses, provides valuable knowledge on investing, retirement planning, and debt management. Additionally, cultivating a habit of long-term financial planning, including investing by doing proper research. By empowering themselves with knowledge and implementing prudent financial practices, the middle class can navigate economic challenges and work towards achieving their financial aspirations.

The middle class can avoid debt by practicing disciplined financial habits. This includes living within their means by budgeting and prioritizing needs over wants. Building an emergency fund to cover unforeseen expenses reduces reliance on credit during financial emergencies. Avoiding unnecessary borrowing and opting for cash or debit payments whenever possible helps prevent the accumulation of debt. Additionally, maintaining a good credit score facilitates access to favorable loan terms and lower interest rates when borrowing is necessary. By cultivating a mindset of frugality, prudent spending, and proactive financial planning, the middle class can mitigate the risk of debt and secure their financial stability.

Conclusion

In this paper, several financial problems faced by the youth and the middle class have been discussed. Obtaining information from other literature papers, some of the proposed ideas are given by the Author.

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