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DEBT TRAP IN INDIA

DEBT TRAP

A debt trap is a circumstance in which you are obliged to take on additional debt in order to make payments off your current debts. Eventually, you're caught in a scenario where the debt has spiralled out of hand and surpasses your ability to repay it.

Credit cards aid purchasers by providing different options and benefits. These alternatives to money are ideal for making purchases once other choices have been explored. Credit cards featuring incentives such as points, miles, and cash back are more popular, accounting for a growing percentage of credit card expenditure in recent years.

There is significant rise in the sector of consumers having lower credit ratings, both overall and in the major credit tiers. A debt trap is a circumstance in which you are obliged to take out additional loans to pay off your previous debts. And before you realize what this debt trap is, you find yourself in a scenario wherein the amount of debt that owe worsens and escalates out of control.

Such a circumstance often occurs when your financial commitments surpass your ability to repay. For example, if your income is inadequate to pay off your debt, the interest on your outstanding loan balance will begin to accrue fast. This will eventually cause you to take out more loans to pay off the accumulated interest, trapping you in a debt cycle.

HOW DOES THE DEBT TRAP WORKS

When you decide to take out a financial institution through a moneylender, two factors come into play: the fascination rate (the sum that the lender pays on the primary credit amount) and the loan principal. Can you start paying off your loan as soon as the principle starts to decrease? However, each month you repay your loan, you participate to both the principle and the interest. This is due almost all loans have an amortization schedule.

SECURE YOURSELF AGAINST UPHEAVALS

Revenue and economic shocks occur when you do not have the necessary revenue to maintain your existing lifestyle. For example, losing your existing employment will result in a loss of revenue. And because of the loss of revenue, you will be difficult to fulfill your normal costs such as EMIs or loans. Instead than being caught off guard by economic as well as income shocks, devise a strategy and save enough money to cover all possibilities. Create an emergency fund to assist you deal with such emergencies.

However, your emergency reserve should be five times your current monthly salary, held in a fixed deposit or liquid mutual fund.

REASONS OF DEBT TRAP

1. Instalment payments are in excess of fifty percent of your salary.

Excessive spending can put a burden on your budget, perhaps leading you into debt. When you becomes an Impulsive Purchaser and get wrapped up in EMI programs or discounts, you are more likely to end yourself in debt. Before making an impulsive purchase, consider your financial situation.

2. No payback plans

Credit card balances or loans may appeal to you, but you must first devise a repayment strategy. When applying for a loan, it is a good idea to plan your repayment strategy using an EMI calculator.

3. Fixed expenditures exceed the revenue you make.

Today's product industry pushes consumers to ask for stuff they don't actually need. Furthermore, many banks will supply you with only the bare minimum of documents for your loan. This allows people to simply spend more than what they make. If your usual expenses surpass your income, you may be trapped in debt. Such a predicament might emerge if someone borrows an excessive quantity at once.

4. Consuming Credit Limit

Credit card debt is an easy way to get in a debt trap, as the allure of the exciting offers draws most people in and leads to never-ending credit card payments. However, credit card issuers charge high interest rates ranging from 16 to 32% each year.

HOW TO GET OUT OF THE DEBT TRAP?

1. Automate payment for instalment payments and utilities.

You can permit a bank or other appropriate institution to handle your instalment loan and utility payments for bills. These bills have to be paid upon time and without delay. This issue can be solved with a system that effortlessly gathers payments for such bills.

2. Check what's most important to you.

Some people overspend without carefully reviewing their finances and spending habits. To avoid this, create a list of objectives that separates your requirements. Divide your demands into three categories: vital, semi-essential, and non-essential. Make an effort to concentrate just on the most important aspects.

CONCLUSION

The majority of have took out loans when we need it, but poor financial management can lead to debt traps. To avoid sliding into debt, keep track of your income and expenses to see how much money you are spending. You may also invest in the stock market, which has a low risk ratio, and so diversify your investment and have an emergency fund for the financial crisis.

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