EMI Burden and Its Implications for Household Consumption and Savings Behaviour: A Study of Kochi City

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CERTIFICATE

This is to certify that the dissertation titled “EMI Burden and Its Implications for Household Consumption and Savings Behaviour: A Study of Kochi City” Submitted to partial fulfillment of the requirement of M A DEGREE IN ECONOMICS to ST. TERESA'S COLLEGE (AUTONOMOUS) affiliated to MAHATMA GANDHI UNIVERSITY, KOTTAYAM, is a true record completely done by the student under my supervision and guidance

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DECLARATION

I hereby declare that this dissertation entitled, "EMI Burden and Its Implications for Household Consumption and Savings Behavior: A Study of Kochi City" submitted by me in partial fulfillment of the requirements for the award of an M.A Degree in Economics is my original work. This work has not previously formed the basis for other academic qualifications.

Signature of the supervisor. Signature of candidate

Dr. Swathy Varma P R Swetha R

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CHAPTER - I

1.1 INTRODUCTION

Financial institutions play a pivotal role in shaping a country's economic growth trajectory by facilitating savings, investments and credits for economic activities. [1] Household debt in India increased to 41.3 % of GDP by March 2025, marking a sustained rise above its five-year average of 38.3 %. This reflects stronger household borrowing, particularly through consumption-oriented retail loans such as personal loans, credit cards and consumer durables financing. This shows that the structure of household borrowing has changed significantly, with non-housing retail loans now forming the largest share of total household debt. (RBI Financial Stability Report, 2025). This shift suggests that borrowing is increasingly being used to fund consumption related expenses rather than long-term asset creation such as housing or productive investments.

The rising share of personal loans in consumption credit, along with the dominance of non-housing retail loans, reflects a structural shift toward consumption-driven borrowing among households. While the risk-tier migration matrix indicates relative stability and some improvement in borrower credit profiles, the increasing dependence on unsecured personal loans may heighten financial vulnerability, particularly for middle-class households. Unlike housing loans, which contribute to asset creation, consumption loans primarily finance short-term expenditures. In periods of income uncertainty or economic slowdown, such credit-financed consumption can elevate repayment stress and increase the risk of debt traps. Therefore, even though the borrower risk profile appears stable in the short term, the sustained rise in household debt relative to GDP warrants careful monitoring from a financial stability perspective.

Personal loans alone constituted 22.3 per cent of total consumption-purpose loans in 2025, underscoring their expanding role in household finance. Unlike housing or business loans, which contribute to long-term asset creation or income generation, personal and other non-housing retail loans primarily finance consumption expenditures. This reflects an increasing reliance on credit to sustain lifestyle and aspirational spending.

The increasing use of Equated Monthly Installments (EMIs) has significantly reshaped the financial landscape of households across the world. EMIs have the distinct advantage of enabling immediate consumption by spreading payments over time, thereby making goods and services more accessible. Over the years, the number of EMI-based purchases has risen steadily, influencing household consumption patterns as well as savings behaviour. In India, EMIs have evolved from being primarily a financing tool for high-value assets such as housing and automobiles to becoming a routine lifestyle enabler, particularly among low-income groups and young consumers.

This broader national trend is particularly relevant in the context of Kerala, a state characterized by relatively high household borrowing levels. A significant shift can be witnessed from traditional savings methods to immediate consumption with the aid of different amortization methods, especially through Equated monthly installments (EMI's).

Against this background of rising household indebtedness and growing dependence on EMIs, the study examines the pattern of income, consumption and EMI burden among households in Kochi city. The analysis focuses on different occupational groups-students, salaried employees, self-employed individuals, and daily wage earners-to understand how EMI obligations influence financial stability, savings capacity and overall economic behaviour across socio-economic categories.

1.2 LITERATURE REVIEW

According to Rob Ranyard and Gill Craig (1995), Instalment credits play a key role in personal budgeting. It indirectly aids the consumers to manage between income and expenditure. The study concludes that the mental accounts are ‘natural’ representations which serve useful functions in personal budgeting.[5]

Deniz Aydin in (2022) states that people mainly depend upon flexible installment contracts in the short run. Whereas in the long run borrowings are done with installments.

The participants borrow when credit expands but save out of constraints when limits are tight.[6] The interpretation also highlights the importance of precautionary savings.

In the opinion of Lawrence Leonard Werboff (1957) consumers borrowed mainly to meet emergencies for centuries. Consumer loans were considered as illegal which is referred to as 'loan – sharks'. He states that, the installment credit terms directly affect the consumer demand for durable goods and also act as a significant tool of monetary policy.[7]

According to Stijn Maesen and Dionysius Ang (2025), with "Buy now, pay later" (BNPL) installment payments the purchasing behaviour of the consumers has been reshaped. It increased spending by reducing perceived financial constraints.[8] The study highlights the reduction in financial constraints due to reduction in costs and improving budget control.

Razak K P Abdul and Dr. Jayarajan T K in (2024) states the flexibility and convenience of using the EMI schemes and BNPL services. It also highlights the risks associated with these installments. According to their findings if credit is not used appropriately, the appeal of deferred payments and easy credit availability might result in impulsive expenditure and greater financial difficulties.[9] It also discusses the improved cash flow management.

According to S K Bose and D.D Mukherjee in (2009), Equated monthly installments has been figured out as a two-way bridge which benefits both the lender and the borrower. The impact of varying interest rates and varying periodicities of compounding on the EMI's and how the borrowers and lenders respond to such situations are analysed.[10]

From the view of Gauri Nair, Jeo Joy and Ian Joseph, the amount of EMI consumption is rising day by day. In the study they have been found that the urban

population are inclined to more high value purchases due to availability of EMI than the rural population.[11] Most consumers especially from urban areas are aware about the impacts of EMI consumption and its effect on savings.

In the opinion of Aditya Dasika Aditya (2025), BNPL services as well as EMI'S offer instant gratification and flexibility to increase purchases. The study also points out the risks associated with these installment methods such as debt accumulation, late fees and limited consumer protection.[12] It also analyzes how BNPL influences the spending behavior and financial decision making.

P. Vijay in (2018), states that, the satisfaction that customers attain by fulfilling the requirements through Equated monthly installment loan services. The study is conducted in Coimbatore city of Tamil Nadu. He says that, the respondents have higher income and they have taken loans for purchasing luxury items and vehicles in Coimbatore city.[13]

According to Amaya Kavya and Seema Yadav in (2024), the household financial stability is eroding due to EMI dependency in India. Middle income households are relying more on the EMI loans for maintaining their standard of living. There is a worrying shift in from savings to debt, with a 47- year low in household net financial savings, now at 5.3% of GDP (RBI,2023).[14]

From the view of Murat O Nassimov in (2025), financial literacy, income volatility and socio - economic disparities play a crucial role in shaping borrowing behavior. The study is done in the southern region of Kazakhstan. The survey results reveal the primary purpose for which installment plans are used, with household appliances being the most common purchase category.[15]

Raymond Kirby and Oral Capps Jr. in (1994) in their study examined the trends in consumer installment credit from 1980 to 1989. The impact of installment credit on food expenditures was analyzed. The findings highlights that the ratio of installment credit to personal disposable income has a direct effect on food expenditures. A one percent change in the ratio leads to a 0.15 percent change in real per capita food expenditures.[16]

In the opinion of Sachin V Chaudhari, Pavan D Kudake, Pankaj U Joshi, Aarya S Gowand, Gitanjali P Kote, Sakshi V Wakte in (2022) machine learning can be utilized in the banking sector for predicting customer EMI credit risk. By analyzing customer behaviour patterns and historical data, machine learning algorithms can accurately predict the creditworthiness of borrowers and identify potential defaulters.[17]

1.3. DEFINITIONS

EMI: Equated monthly installments are the fixed monthly payment a borrower makes to a lender to repay loan monthly. It includes a part of the principal amount and a certain rate of interest. The payment amount will be the same every month. Equated monthly installments aids the consumption of several consumer durable goods especially the luxury ones.

Consumption: Consumption is the use of goods and services by households to satisfy the needs and wants of a consumer. It is the final stage in economic activity and drives economic growth. It involves spending money on consumer durable goods such as food, clothing and other services like transportation and communication.

Savings: Savings is the money set aside from the income which is not spent on current consumption. It is mainly reserved for future needs such as any kind of emergencies. Savings provides financial security and builds wealth. Investments are also a form of savings. Disposable income (Y) – Consumption (C) is the formula for finding the amount of savings.

1.4 STATEMENT OF THE PROBLEM

While household indebtedness has increased in recent years, official government data indicate that, the household sector in India exhibited a steady increase in gross savings over the period from 2016–17 to 2020–21. Gross savings rose from Rs.27, 87,134 Crore in 2016–17 to Rs.43,90, 584 Crore in 2020–21, reflecting a notable growth in the absolute savings of households. Correspondingly, the savings rate, measured as the ratio of gross savings to GDP, also showed an upward trend, increasing from 18.1% in 2016–17 to 22.2% in 2020–21, despite minor fluctuations in 2019–20. This indicates that households were not only saving more in absolute terms but were also allocating a higher proportion of their income towards savings. The increase in household savings, especially during the pandemic year 2020–21, may be attributed to precautionary motives, reduced consumption opportunities[4] and increased awareness of financial security. Overall, these trends highlight the growing importance of the household sector in the national savings framework and its potential role in supporting economic investment.

However, the post-pandemic phase reveals a contrasting trend. As economic activity resumed and consumption demand rebounded, household borrowing-particularly retail and consumption-oriented loans-expanded significantly. The increasing reliance on EMIs and personal loans indicates a shift from precautionary savings behaviour during the pandemic to credit-financed consumption in the recovery period. Thus, the trajectory of household finance in India reflects a transition from a savings-driven pattern during economic uncertainty to a consumption-driven borrowing pattern in the subsequent period.

The increased availability of credit facilities is one of the important reasons which contribute towards this shift in financial behavior from traditional to modern. The credit facilities include EMI related services which have both positive as well as negative effect. The standard of living has improved by consuming goods using EMI facilities even if the financial requirement for the consumption is low. On the other hand, it can also negatively influence the financial wellbeing of the credit user by increasing the financial stress. The financial stress arises when the EMI repayment amount is high in proportion to the monthly income of the individuals. In cities like Kochi, many households are forced to take EMI repayments. Credit availability also has a brighter side which enhances the standard of living by increasing consumption. But this will negatively influence the earlier

consumption patterns and savings behavior. Despite the growing importance of the issue of increasing credit Installments, there is only limited literature focusing specifically on the relationship between EMI burden and household consumption and savings behavior in Kochi. Therefore, the problem addressed in the study is to analyze the extent of EMI burden on households' consumption and savings behavior in Kochi city.

1.5. OBJECTIVES

- To analyze the pattern of income, consumption and the burden of EMI among households in Kochi city, considering different occupational groups including students, salaried employees, self-employed individuals and daily wage earners.
- To examine the reduction in savings due to EMI burden among the selected samples in the study area.

1.6. THEORETICAL FRAMEWORK

The present study can be theoretically grounded in Keynes' Absolute Income Hypothesis, which states that consumption primarily depends on current disposable income. According to Keynes, as income increases, consumption rises, but not proportionately, leaving a portion for savings. In the context of increasing EMI commitments, a significant share of household income is pre-committed toward debt repayment, thereby reducing disposable income available for other consumption and saving. The Life Cycle Hypothesis complements this perspective by emphasizing that individuals plan their consumption and savings over their lifetime to smooth consumption across different stages. EMI obligations can disrupt this planned consumption, forcing households to reduce savings and adjust their lifestyle expenditures, potentially leading to dynamic imbalances in consumption. Together, these theories suggest that EMI burdens not only limit short-term consumption but also interfere with long-term financial planning, highlighting the dual effect of debt on household welfare.

1.7. DATA AND METHODS:

The study is based on both primary and secondary data. Secondary data were collected from research journals, books, scholarly articles, and published reports relating to EMIs, household debt, and consumption behaviour. The first two chapters of the study were developed through an extensive review of literature and analysis of existing data on EMI trends and household borrowing patterns.

Primary data were collected through a field survey using a structured questionnaire. For this purpose, Ernakulam district in Kerala was selected as the area of study. The district was chosen because it is widely regarded as the commercial capital of Kerala and contributes a significant share to the state's Gross Domestic Product (GDP). The region has witnessed changing consumption patterns, increasing retail credit penetration and a relatively high prevalence of personal loan facilities. As a major urban center, Ernakulam comprises households from diverse occupational groups, including salaried employees, self-employed individuals, daily wage earners and students, making it suitable for analyzing variations in EMI burden across socio-economic categories.

The study employed a purposive sampling technique for selecting respondents. A total of 50 individuals, having both active EMIs, were selected from different areas of Kochi city. After data collection, the responses were systematically processed and analyzed. Tools such as pie diagrams, bar diagrams, and simple statistical analysis were used to interpret the data clearly and effectively. The present study is both descriptive and analytical. It is descriptive in the sense that it gives the overview of EMI and its usage. Whereas it is analytical because, statistical tools like multiple regression, chi - square test has been used to interpret the data. Period of study is from 2025-26.

1.8 RELEVANCE OF THE STUDY

The study is highly relevant in the present economic situation. The availability of credit facilities is very high at present. In order to maintain a certain level of life style, individuals are depending more on various credit facilities like Equated monthly

installments. Increased dependence on EMI'S can impact the financial decisions of households in several ways. It will affect the financial stress level of the EMI users positively, meaning it will increase the burden of repayment by reducing their disposable income. Further it will contribute towards the reduction in savings. Declining household savings and rising indebtedness will have major economic concern. To become a responsible borrower, a clear understanding about EMI services and its impact is very necessary. It will promote financial planning and thereby responsible borrowing.

1.9 SCHEME OF THE REPORT

The study is divided into four chapters.

The first chapter provides a brief introduction of the study. It includes review of literature, definition of concepts, statement of the problem, present relevance of the topic, main objectives, methodology and limitations.

The second chapter consists of overview of the Equated Monthly Installments (EMIs) in context of India, Kerala and Ernakulam district scenario.

The third chapter deals with the analysis of information collected from questionnaire given to active and inactive EMI users.

The fourth chapter presents findings, highlights the various conclusions drawn from the analysis of the questionnaire and also the recommendations put forward by the investigator.

1.10 LIMITATIONS OF THE STUDY

- The sample size taken was very small. A large sample size may have yielded better results and the study area is confined to Kochi city only. So, the findings cannot be generalized to other regions.

- The respondent may have been biased in answering the questions related to income, EMI repayment amount, etc.

CHAPTER –II

EQUATED MONTHLY INSTALLMENTS – An Overview

Equated Monthly installments (EMI, S) are regular periodic payments made by the borrower to the lender on a specified date in each month till the month of maturity. It is a form of credit instrument used to purchase various goods such as consumer durables like vehicles, mobile phones, home appliances, etc. Not only consumer durables, personal loans, credit cards are also included in equated monthly installments. The principal amounts, interest on the principle amount, duration of the loan are the three important components related to the equated monthly installments.

EMI plays a very crucial role in shaping the financial behavior of the households. The financial behavior mainly includes the consumption pattern and savings decisions of households. The influence of EMI on these decisions is not so less. EMI'S are becoming an integral factor which affects consumption as well as savings. It allows the consumers to afford even expensive goods, by dividing the overall financial burden into equated monthly payments. This convenience has also led to some negative impacts like indebtedness and rise in financial pressure.

2.1 Overview of Equated Monthly Installments in India

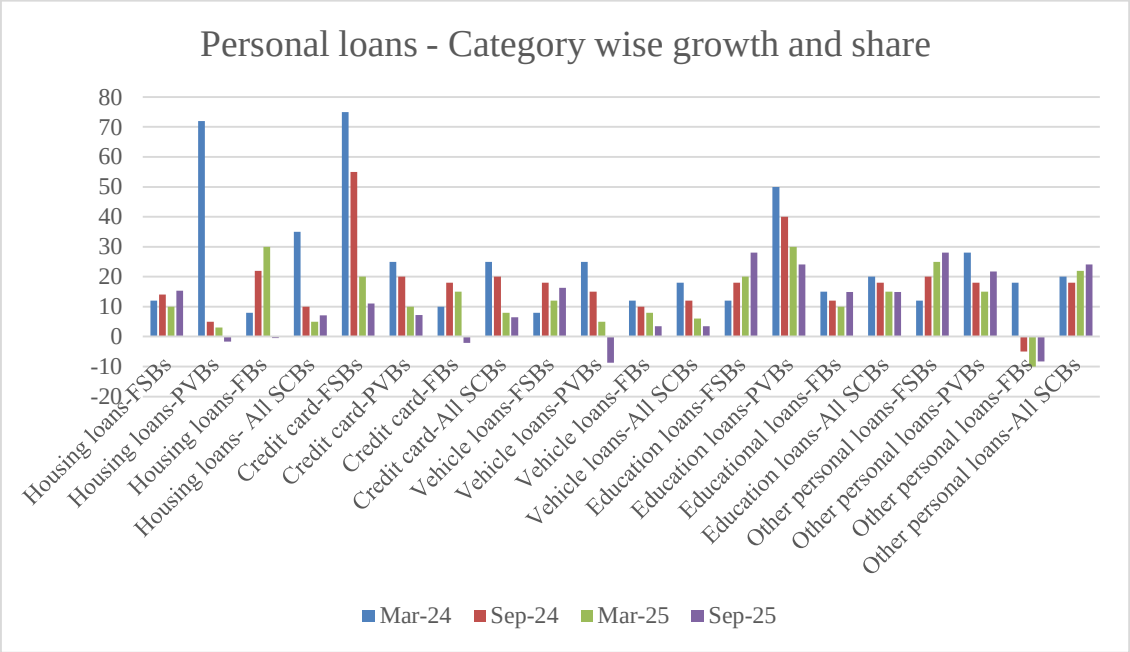
Equated monthly installments got introduced in India as a credit instrument for facilitating consumption. Traditionally Indian households were depended on informal credit facilities like borrowing from lenders who charge unfair interest rates, borrowing from friends and relatives and all. The availability of credit facilities was very low during the earlier period. With the expansion of banking services in India, the asses to credit facilities got liberalized. The entry of non-banking financial sector paved the way for availing formal credits.

The economic reform of 1990's liberalized and opened markets and thereby increased the credit facilities for consumers. Not only liberalization, the technological advancement that happened in the banking sector such as online banking, automated repayments also made the formal credit widely accessible. Economists believe that, equated monthly installments have the ability to improve asset acquisition of durables like vehicles, digital appliances, etc. With increased level of consumption, the standard of living can be improved to a certain level. Apart from the bright side of equated monthly

installments, there are also some negatives associated with this credit facility. It includes, increase in the indebtedness of households, reduction in the savings rate and also a high level of financial stress. The National trend shows a shift from savings-based consumption to a credit-based consumption.

According to the RBI Financial Stability Report (December 2025), the growth of personal loans by Scheduled Commercial Banks (SCBs) showed a mixed trend across categories. Housing loans by private banks witnessed a notable rise in March 2024, partly due to the merger of a large housing finance company with private bank. Among personal loans, housing loans continued to dominate with a 45.6% share, followed by other personal loans at 37.3%.

The data on bank credits reveals that personal loans form a significant portion of total lending, with 40,74,846 in total and 17,343 accounts, constituting roughly 38% of overall bank credit. Within personal loans, loans for housing (42,376) and consumer durables (1,64,521) represent a small fraction.

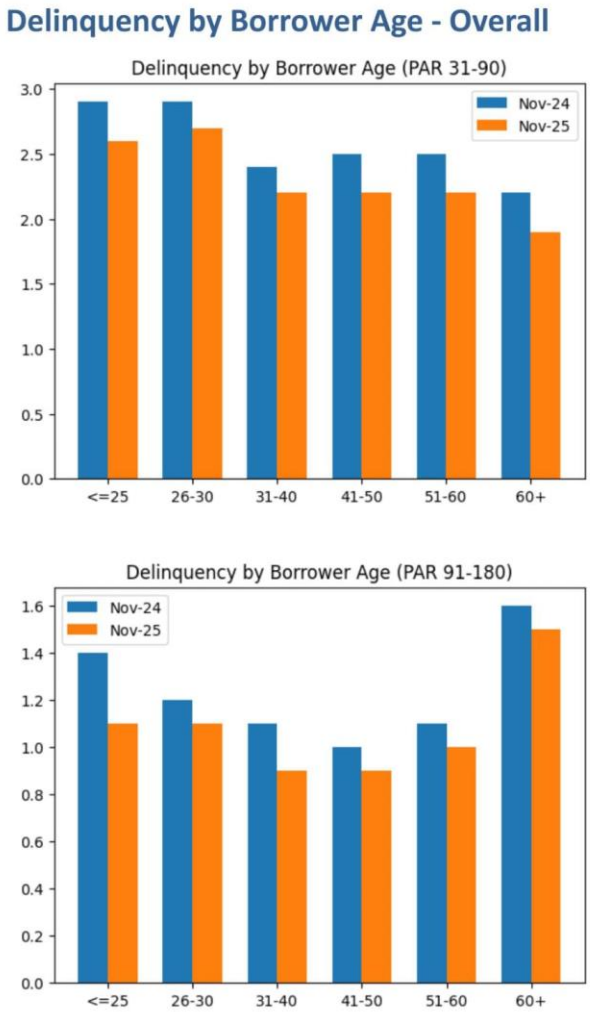


Source: RBI Financial Stability Report (December 2025)

Figure 2.1

As per the latest Credit Insight Report (2026) of CRIF High Mark, the credit trend has been improved across all age groups between Nov ’24 and Nov ’25 with peak earning years and borrowing capacity. Unsecured loans such as consumer durables, personal loans, credit cards dominate the credit market. This type loans are mainly secured by the individuals between 31 – 40 age group. Age distribution is less skewed towards the age group 30 or below with 30 – 40 and 41 – 50 cohorts playing a stronger role, consistent with life-stage home and auto purchases[18.]

The borrowers aged 30 and below exhibits higher delinquency levels compared to older age groups. This can be due to increased level of financial burden.



Source: Credit Insight Report (2026), CRIF High Mark

Figure 2.2

2.2 Equated Monthly Installments – Kerala State Scenario

With higher rate in literacy, diversification in the sources of income Kerala shows a positive nature towards the credit facilities that are available. During earlier times, Kerala was opting for traditional credit facilities like savings led consumption. But now, it has been significantly got shifted to modern credit driven consumption. One of the important factors that led to this shift is the changing preferences of the consumers. Updation in consumer durables like vehicles and digital appliances promote the dependence EMI'S. The financial constraint associated with the purchase of high value goods also induce the consumers to choose equated monthly installment option.

The credit profile of Kerala reveals that, the credit requirements are mainly in the form of personal loans. Housing loans remain significant but comparatively smaller component. Overall, personal loans constitute a major share of total bank sector. The below shown table represents the outstanding credit of small borrowal accounts of Scheduled Commercial Banks in Kerala as of March 2025, classified by occupation under the broad category of personal loans.

PERSONAL LOANS	2,67,648	1,311	23,89,659	10,559	14,17,539	5,474	40,74,846	17,343
1.Loans for housing	1,558	16	24,014	231	16,804	120	42,376	368
2.Loans for purchase of consumer durables	932	3	8,060	38	1,55,529	308	1,64,521	349
3.Rest of the personal Loans	2,65,158	1,291	23,57,585	10,289	12,45,206	5,046	38,67,949	16,626
Total Bank Credit	6,54,671	4,189	71,57,994	46,401	28,65,090	12,829	10677755	63,419

Source: RBI's Database on Indian Economy (DBIE)

Table 2.1

The increase in the level of income can make the consumer to avail EMI based consumption. Because, the borrower is capable of repaying the EMI without facing any financial pressure. Kerala has one of the highest banking penetrations among the other Indian states. Almost every household have access to digital banking services, making EMI based credits easily available. Several studies show that, Kerala is dealing with higher levels of financial commitments. These obligations are mainly associated with home loans, vehicle loans, etc. This financial pressure will affect the other financial decisions like consumption and savings negatively.

2.3 Equated Monthly Installments – Ernakulam District Scenario

Ernakulam district particularly Kochi city, is one of the most economically developed regions in Kerala. It is a commercial center with high rates of employment opportunities, educational programs. The district's contribution towards the GDP of Kerala is very high. The EMI trend in Ernakulam highlights benefits as well as risks. The urban population residing here is giving more priority towards the consumption of life style consumer durables like home appliances, vehicles and all. The residents here prefer present consumption and future payments because they are will and capable to make payments later with the aid of increased levels of income from diversified sources. Research highlights that, a major share of income is allocated for the purpose of EMI repayment. This shows an increased degree of financial obligation thereby reducing the wellbeing. The unorganized sectors which are affected by the EMI repayment are occupational group with unstable income levels. EMI'S have transformed the financial behavior of households to a great extent.

CHAPTER –III

HOUSEHOLD CONSUMPTION AND SAVINGS BEHAVIOUR-AN ANALYSIS

3.1 This chapter deals with the analysis and interpretation of the primary data. The analysis is based on the responses from individuals who avail the service of Equated monthly installments (EMI'S). The purpose of this chapter is to examine the influence of EMI burden on consumption and savings. Through this, the socio-economic profile, the nature and extent of EMI burden and effects of EMI commitments of the respondents on consumption pattern, savings behavior can be figured out.

3.1.1 Age Group

Age Group of Respondents

Age Group	Frequency	Percent
18-25	27	54
26 - 30	8	16
31 - 40	8	16
41 - 50	4	8
51 - 55	2	4
56 and above	1	1
Total	50	100

Source: Primary data

Table 3.1

The table represents the age wise distribution of the respondents. In order to understand which category of the population is more engaged in EMI based services. The data shows majority of the respondents belong to the working age category. This group will have more consumption and investment needs. So, they are showing more dependence on EMI financings.

3.1.2 Occupation

Occupation of the respondents

Occupation	Frequency	Percent
Student	11	22
Salaried employee	26	52
Self employed	6	12
Daily wage earner	7	14
Retired	0	0
Total	50	100

Source: Primary data

Table 3.2

The frequency table shows the occupational distribution of the respondents. The group of salaried employees constitutes a significant share of users of EMI. The unorganized sectors are unlikely to avail the services due to reduced stability in the income levels.

3.1.3 Educational qualification

Educational qualification of the respondents

Educational qualification	Frequency	Valid Percent
SSLC/ +2	17	34
Graduate	25	50
Post graduate	8	16
PhD	0	0
Total	50	100

Source: Primary data

Table 3.3

The represented data shows the educational qualification of the respondents. A substantial portion of Equated monthly installment users are with higher levels of education. Higher educational levels can be considered as criteria for better awareness on financial decision making. Information regarding various credit facilities including EMI can be understood with higher levels of education.

3.1.4 Members in the Earning household

The number of earning members in the household

Number of earning members	Frequency	Percent
1	11	22
2	11	22
3	14	28
4	14	28
Total	50	100

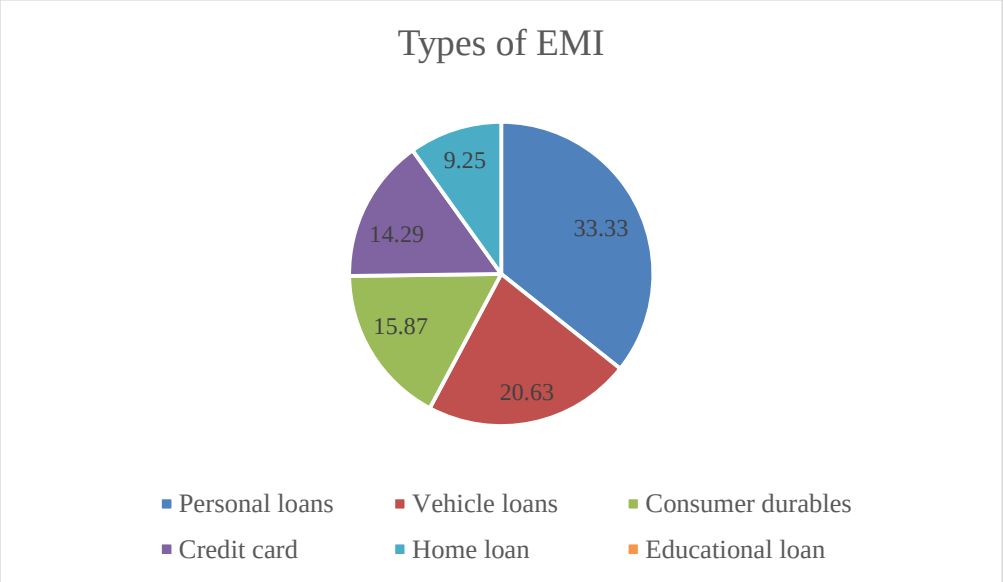
Source: Primary data

Table 3.4

This portion analyses the number of earning members in each sample household. The data reveals that the majority of households have two or more than two earning members. The households with limited earning members may experience a higher level of burden on repaying EMI.

3.1.5 Different EMI types

Types of EMI'S respondents are paying



Source: Primary data

Figure 3.1

This data shows the different types of EMI'S that respondents are committed to. Housing loans, vehicle loans, personal loans, educational loans and consumer durables are the most common loan types respondents are repaying. They are mainly taking commitments to meet their consumption needs rather than any asset creation or investment needs.

3.1.6 Total monthly amount paying for EMI

The total EMI amount paid by respondents

Total monthly payment	Frequency	Percent
Below 5000	21	42
5000 - 10,000	12	24
10,000 - 20,000	9	18

20,000 - 30,000	3	6
30,000 - 40,000	2	4
Above 40,000	3	6
Total	50	100

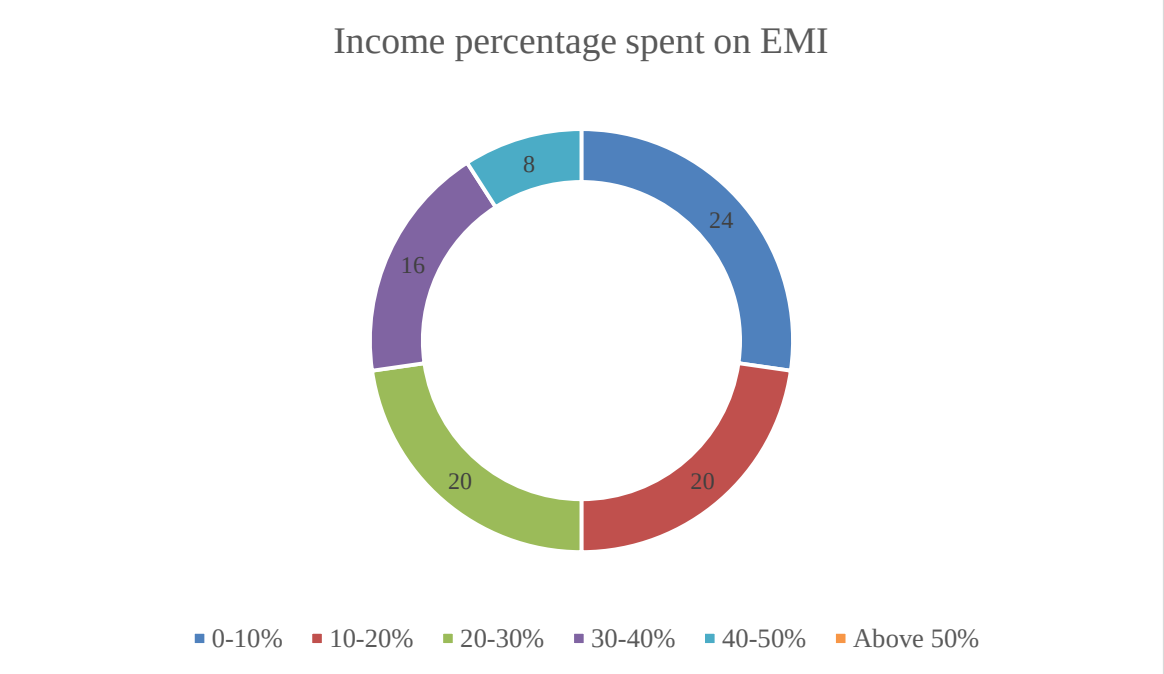
Source: Primary data

Table 3.5

The table illustrates the total monthly amount the respondents are paying towards EMI. The data reveals that a considerable portion of income is allocated for the repayment of EMI. Increased share of EMI repayment will automatically reduce the disposable income thereby reducing consumption and savings.

3.1.7 EMI -to- Income percentage

Percentage of monthly income spent on EMI

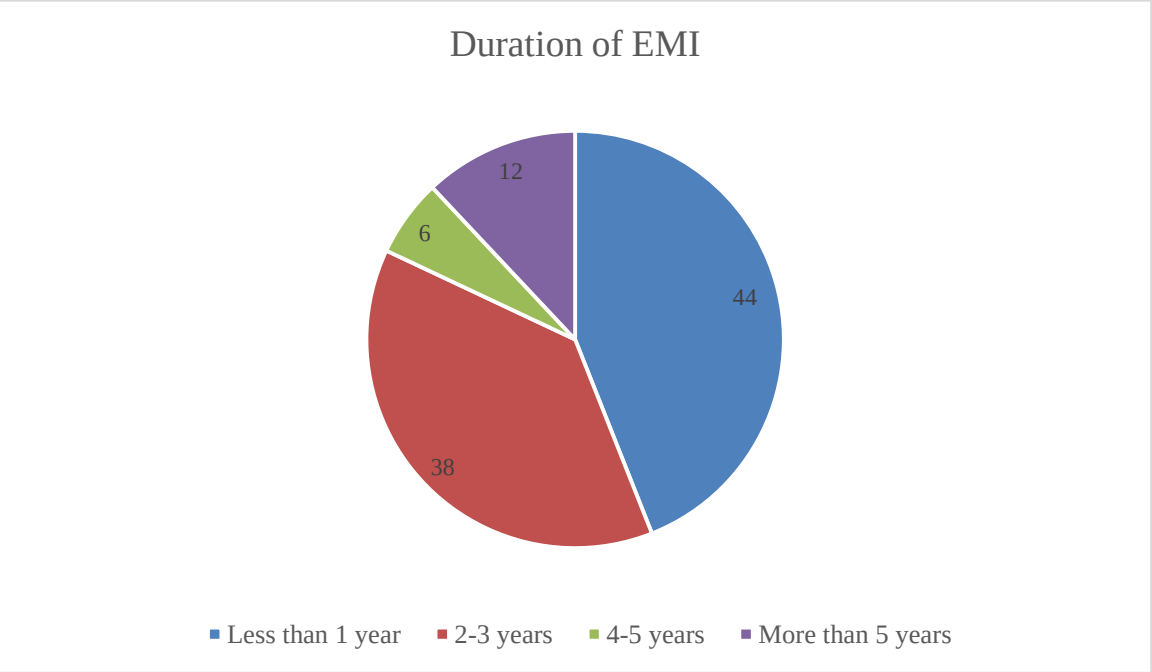


Source: Primary data

Figure 3.2

The diagram shows the percentage of monthly income respondents are allocating for the repayment of EMI. Most of the respondents are setting aside a small share of their income for the purpose of EMI repayment. Whereas, some others are paying a higher share out of their monthly income. It will impact the consumer ability to purchase as well as to save.

3.1.8 EMI repayment duration

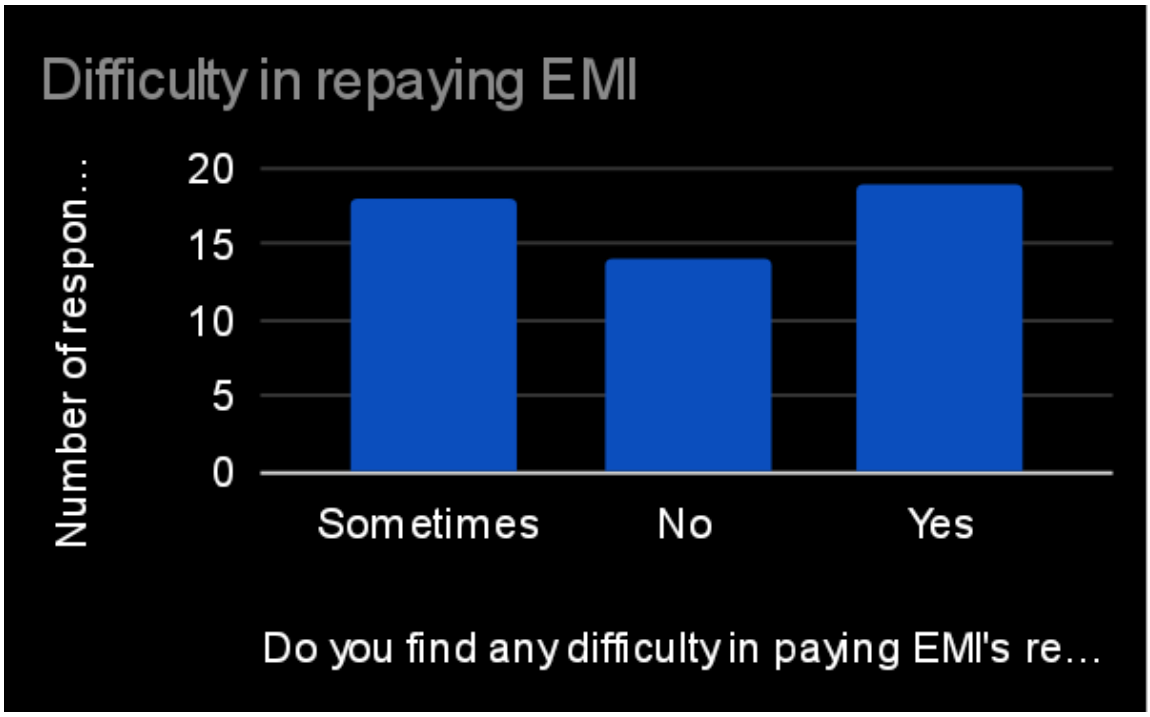


Source: Primary data

Figure 3.3

The data shows the duration or time for which the respondents need to repay their EMI on a regular basis. By analyzing, it is understood that long term loans are common in the case of housing and educational loans. Long term loans will benefit the respondents by reducing the monthly installment but it will extend the financial commitment which will in turn affect the consumption and savings decisions of the EMI users.

3.1.9 Difficulties in regular EMI repayment



Source: Primary data

Figure 3.4

The data examines the Difficulties EMI users face while repaying regularly. Most of the respondent's experience repayment challenges due to unstable levels of income, increased living expenditure and also due to other financial commitments.

3.1.10 Delay in EMI repayment

Delay in EMI repayment	Frequency	Percent
Yes	16	32
No	34	68
Total	50	100

Source: Primary data

Table 3.6

The table reveals the data regarding whether the repayment of EMI'S has been delayed or not. Payment delay is not common among the respondents. Even though, a significant portion is dealing with the repayment. It can be due to fluctuations in the income levels, as well as other personal emergencies like health care expenditures etc.

3.1.11 Consumption expenditure change

Change in consumption expenditure after taking EMI

Change in consumption	Frequency	Percent
No change	14	29.2
Increased	20	41.7
Decreased	14	29.2
Total	50	100

Source: Primary data

Table 3.7

The results show that the consumption expenditure of a portion of the respondents has been changed due to prioritizing EMI and other loan repayments over their consumption. This change is mainly due to the financial constraints the particular respondents are encountering. Whereas, the other group doesn't have any change in their consumption levels. This is because they are having a fixed and stable level of income.

3.1.12 Reduction in spending

Reduction in spending habits after taking EMI

Reduction in spending	Frequency	Percent
Yes	26	52
No	24	48

Total	50	100

Source: Primary data

Table 3.8

A noticeable change in the spending habits of the respondents has been depicted in the table. The spending has been reduced considerably for more than half of the total respondents. The increased burden of repayment of EMI is identified as the main reason for this change in spending habits.

3.1.13 Reduction in spending on food items and non-food items

Items	Frequency	Percent
Yes	23	46
No	41	82
Total	50	100

Source: Primary data

Table 3.9

As per the data, the consumption of non - food items like clothing, fuel, medical and other services declined more than that of food items like processed foods, meat, fruits, etc. This is due to the degree of necessity of the respondents. Food is considered to be one of the basic needs for survival.

3.1.14 Postponement or avoidance of purchases after taking EMI

Deferred purchases due to EMI burden

Impact on purchases	Frequency	Percent
Yes	32	64
No	18	36
Total	50	100

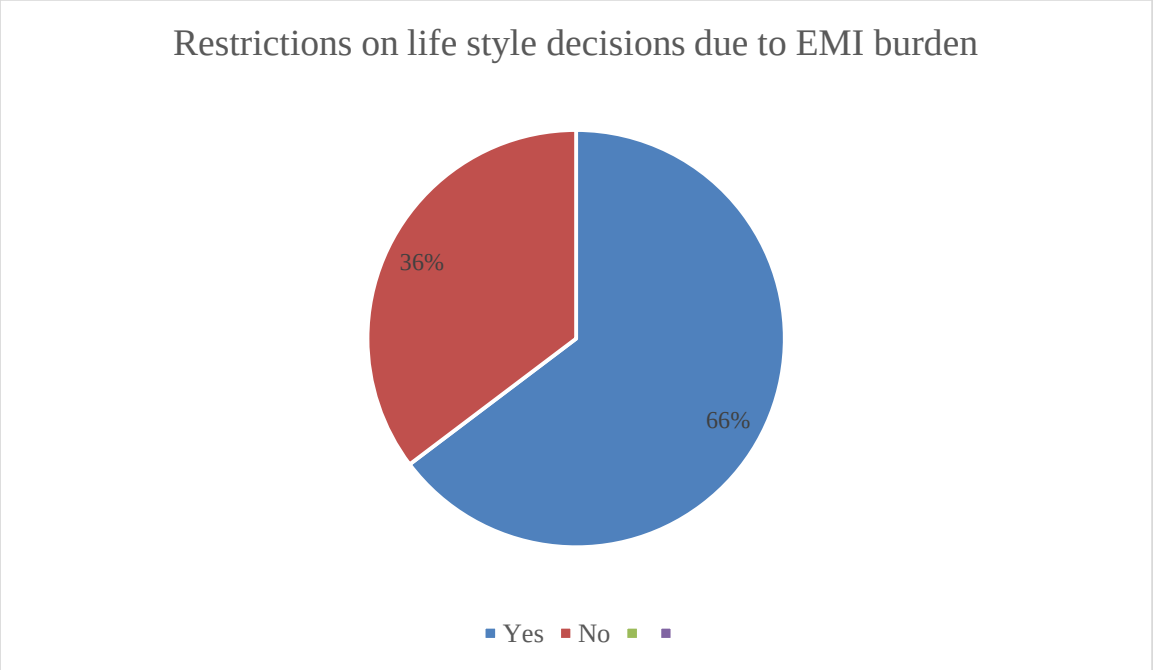
Source: Primary data

Table 3.10

The table explains that more than half of the respondents have postponed or avoided their purchases or consumption of certain goods after taking EMI. These respondents are emphasizing more on EMI repayment procedure rather than focusing on new consumption. Because, spending on purchases can increase the financial burden. While the other small portion are not making any change in their purchases, neither postponement nor avoidance. Income stability is the reason for this.

3.1.15 Restriction of EMI on life style decisions

The influence of EMI burden on life style decisions

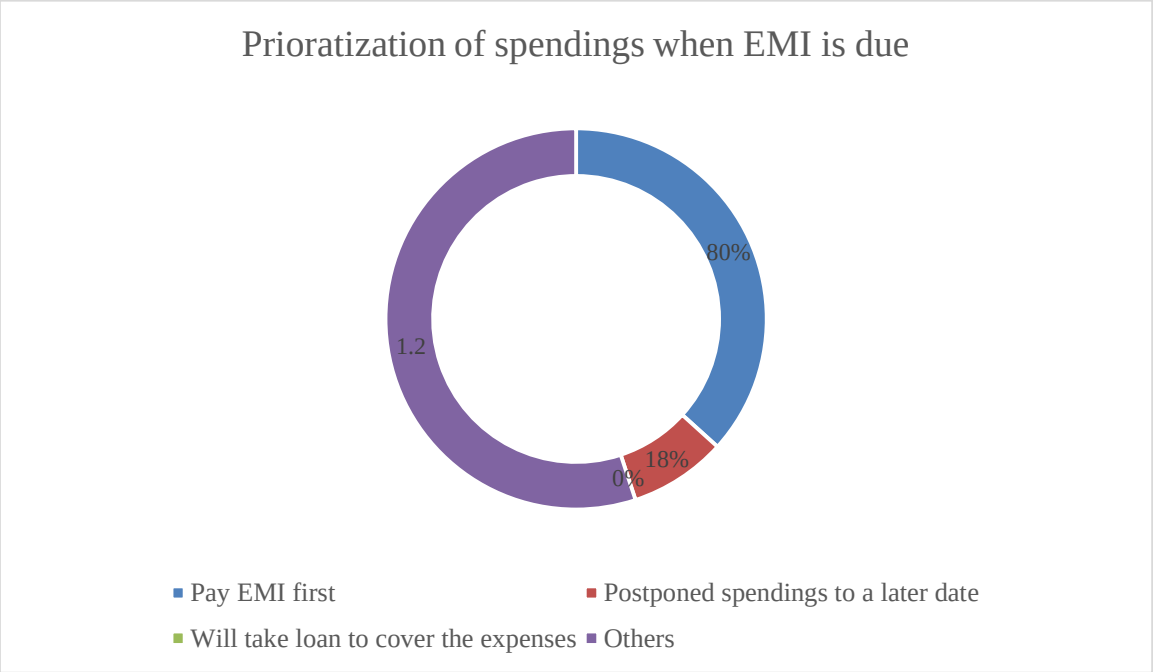


Source: Primary data

Figure 3.5

The restrictions on life - style decisions due to EMI repayment have been illustrated in the pie - diagram. Majority of respondents prefer availing loans from commercial banks. Most of the respondents are facing restrictions on consumption decisions due to their increased level of financial burden. This increase in burden is mainly experienced by the unorganized sector due to fluctuations in their income levels. The repayment of EMI imposes obstruction on making lifestyle decisions.

3.1.16 Priority of expenditure when EMI is due



Source: Primary data

Figure 3.6

The diagram depicts how households prioritize consumption when the EMI repayment is due. Most of the respondents gave emphasis on repayment of EMI whereas some others will prioritize savings first. EMI repayment is a kind of financial expenditure which doesn't accrue any gain from it.

3.1.17 Percentage of monthly income saved

Proportion of income allocated for savings

Savings percentage	Frequency	Percent
0%	12	24
1 - 10%	19	38
11 - 25%	13	26
26 - 50%	4	8

Above 50%	2	4
Total	50	100

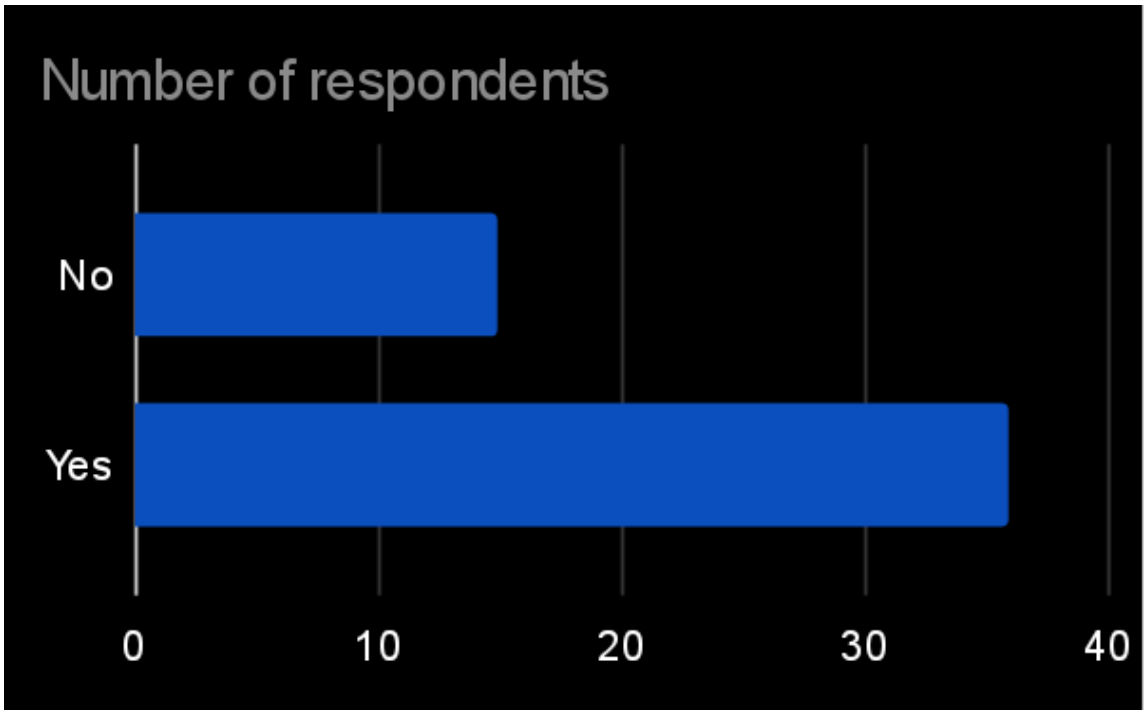
Source: Primary data

Table 3.11

The table shows the savings behavior of households with different levels of income and EMI burden. The majority of respondents save a certain portion from their income. Students constitute a significant share of the respondents. Students mainly avail credits facilities for the purpose of education, consumption of digital gadgets etc. This share of respondents generally tends to have limited or unstable level of incomes. Hence, their percentage of savings will be low. Respondents with high EMI burden tend to save low due to increased financial constraint.

3.1.18 Impact of EMI on savings rate

Reduction in savings rate after EMI consumption



Source: Primary data

Figure 3.7

The diagram shows the negative impact of the savings rate due to EMI burden. The savings behavior of the households is affected by the fluctuations in income, amount of EMI repayment, duration of EMI etc. All these factors can significantly influence the savings behavior in a negative way as per the data from the respondents. The savings of households are mainly in banks in the form of fixed deposits, recurring deposits and all. Respondents also deposit in other saving instruments like gold, chit funds etc.

3.1.19 Savings type

Types of savings respondents are into

Savings type	Frequency	Percent
Fixed deposits	20	40
Recurring deposits	16	32
Mutual funds	9	18
Others	5	10
Total	50	100

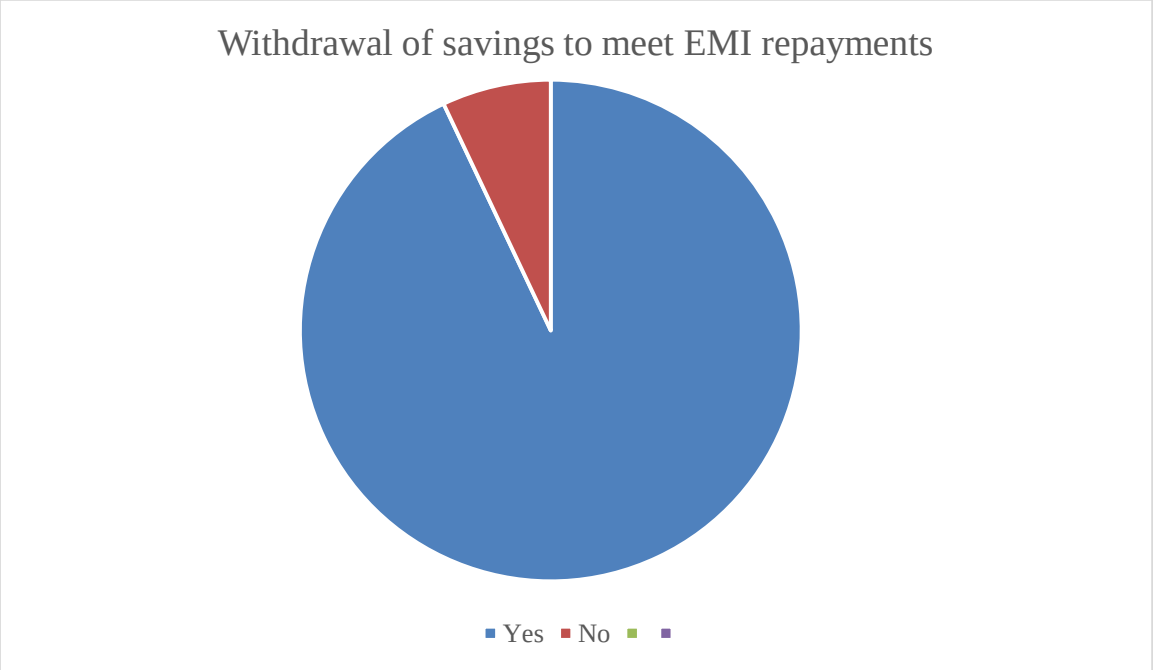
Source: Primary data

Table 3.12

The major saving instruments used by the respondents are shown in the table. The majority of the respondents depended on fixed deposits. The other saving instruments include chit funds, cash in hand etc.

3.1.20 Liquidation of savings to meet EMI repayments

Withdrawal of savings or investments after EMI consumption



Source: Primary data

Figure 3.8

The diagram illustrates the rate of liquidation of savings done by the respondents in order to meet EMI repayments. Most of the respondents have not utilized their savings for debt repayments. However, a significant portion of respondents are forced to compromise their long-term savings. This behavior is due to the difference in financial decision making. According to the respondents who withdraw savings, it is better to reduce the duration of EMI rather than investing in any saving instrument. So, that the interest payment on EMI can be reduced.

3.2 EMI IMPACT

The EMI burden affects the financial behavior of the households by causing changes in their consumption patterns, reduction in spending, postponement of purchases, etc. It also impacts savings behavior, as many respondents save only a small percentage of their income and some even withdraw their savings to meet EMI payments. EMI burden is

significantly associated with reduced savings and delayed purchases, highlighting the strong influence of EMI commitments on household financial decisions.

3.3 ANALYSIS

This study uses $\chi 2$ to find whether there is a significant association between the variables. It is done using hypothesis testing by taking null and alternative hypothesis (H_0 and H_1). The $\chi 2$ test of independence is used here.

3.3.1 Postponement or avoidance of purchase V/S Reduction in savings due to EMI burden Hypotheses:

- Null Hypothesis (H_0): There is no significant relationship between postponement or avoidance of purchase and reduction in savings due to EMI burden.
- Alternative Hypothesis (H_1): There is a significant relationship between postponement or avoidance of purchase and reduction in savings due to EMI burden.

Particulars	Value
$\chi 2$ Value	11.35
Degrees of freedom	1
Level of significance	5% (0.05)
P- value	0.0007

Table 3.16

- Since the P-value is less than 0.05, the null hypothesis is rejected.
- Therefore, the alternative hypothesis is accepted.

The analysis shows that there is a significant relationship between the two variables which are postponement or avoidance of purchase and the reduction in savings due to EMI burden. Households experiencing financial pressure associated with EMI commitments tend to postpone or avoid purchases and report a reduction in savings. Not only purchases, savings rate of households are also getting affected by the EMI constraints. This aligns with Keynesian theory, where committed expenditures reduce disposable income available for discretionary consumption and savings.

CHAPTER – 4

FINDINGS, SUGGESTIONS AND CONCLUSIONS

4.1 Findings

The study highlights the financial challenges faced by the households due to EMI repayment burden.

- The socio-economic profile of the respondents, including age, occupation, education and number of earning members in the household. A large proportion of respondents have EMI commitments such as housing, vehicle, personal, educational, and consumer durable loans. A part of their monthly income is allocated towards the repayment of EMI.

  The EMI burden significantly affects the financial behavior. It reflects a change in the consumption patterns including reduced spending, postponement of purchases and prioritizing EMI payments over other expenses. Savings behavior is also influenced, as several households save only a portion of their income. Overall, increasing EMI commitments impact both consumption and savings decisions of households.

- The chi-square test indicates a statistically significant relationship between the postponement or avoidance of purchases as well as reduction in savings due to increased EMI burden. A large proportion of the respondents reported that they delay or avoid their purchases due to EMI repaying obligations. This clearly shows EMI repayment imposes a great financial pressure on the users. The financial pressure, not only affect the consumption patterns but will also affect the savings behavior of households. With the reduction in savings rate, it will automatically reduce the financial security in long term. The findings also highlight, sometimes individuals rely on savings by withdrawing it to meet the EMI payment requirements. Therefore, it is understood that, due to increased levels of EMI burden, the consumption and savings patterns of the households are getting affected.

4.2 Suggestions/Recommendations

In order to reduce financial stress among the borrowers as well as EMI users, it is better when the financial institutions assess their income stability and repayment capacity in the initial stage. Small number of individuals is unaware of the EMI debt trap which will adversely affect their consumption and savings decisions. Awareness programs should be conducted to educate individuals regarding the pros and cons of availing EMI and other credit services. This will aid in the management of debt as well as for better financial planning. Maintaining a certain level of savings will help the households to manage EMI payments during financial difficulties. Diversification of income sources will reduce the dependence on single source of income.

4.3 Conclusion

The findings of the study highlights that the availing of credit facilities have become an integral part of modern household for the purpose of financial management. The consumption pattern has been changed significantly. It shifted from low to high especially in the case of consumer durables. Individuals are willing to avail credit facilities to maintain an improved degree standard of living with increase in consumption. The convenience in asses to credit has also created the issue of financial pressure on the users. This will directly impact the consumption and savings decisions of the households negatively.

The study concludes that EMI can improve as well as degrade the quality of life at the same time. The former can happen with increased level of consumption and thereby improved standard of living. Whereas, the latter due to increased financial burden and stress caused by the repayment procedures. Prolonged EMI repayment can affect the financial security of the borrower. Therefore, awareness regarding the EMI facility, proper financial planning, income stability and financial responsibility are essential for the borrower for maintaining a balance between consumption, savings and indebtedness. Otherwise, financial disruptions will affect the wellbeing of the borrower.

REFERENCE MATERIALS

EMI Burden and its implications for household consumption and savings Behaviour: In Kochi city

To obtain information regarding the economic analysis on the impact of EMI burden on household consumption and savings with special reference to Kochi city.

1. Age:
2. Occupation:
3. Educational Qualification: □ SSLC/+2 □ Graduate □Post Graduate □ PHD
4. Number of Earning members in the household:
5. Do you have any active EMI'S: □ Yes □ No
6. Types of EMI'S you are paying: □ Home loan □Vehicle loan □Educational loan □Personal loan □ Credit card □ Consumer Durables
7. Total Monthly EMI amount you are paying (approx.): □ Below 5000 □5000-10,000 □10,000-20,000 □20,0000-30,0000 □30,000-40,000 □Above 40,000
8. Percentage of monthly income spent on EMI per month: □ 0-10% □10-20% □20-30% □30-40% □40-50% □Above 50%
9. Duration of EMI you are paying: □Less than 1 year □ 2-3 years □4-5 years □ More than 5 years
10. Do you find any difficulty in paying EMI'S regularly? □ Yes □ No □Sometimes
11. Have you ever delayed EMI payments? □ Yes □ No
12. Overall consumption expenditure change after taking EMI: □ Increased □ Decreased □ No change
13. Any reduction in spending? □ Yes □ No
14. If yes, for which item? □Food items (Beverages, processed foods, fish, meat, fruits, etc.) □Non-food items (Fuel, clothing, durables, medical and other services, etc.)
15. Do you postponed or avoid purchase due to EMI burden? □ Yes □ No
16. Do EMI restrict your life-style choices? □ Yes □ No
17. If EMI payments are due, how will you prioritize your spending? □ Pay EMI first □ Postponed spending to a later date □ Will take a loan to cover the expenses □ Other

18. How much of your monthly income do you save? □ 0% □ 1-10% □ 11-25% □ 26-50% □ Above 50%
19. Did your savings rate reduced after taking EMI? □ Yes □ No
20. What type of savings do you have? □ Fixed deposits □ Recurring Deposits □ Mutual funds □ Other
21. Have you withdrawn any savings or investments to meet EMI payments? □ Yes □ No

(THANK YOU FOR SPENDING YOUR VALUABLE TIME)

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DECLARATION

I hereby declare that this dissertation entitled, "EMI Burden and Its Implications for Household Consumption and Savings Behavior: A Study of Kochi City" submitted by me in partial fulfillment of the requirements for the award of an M.A Degree in Economics is my original work. This work has not previously formed the basis for other academic qualifications.

Signature of the supervisor.

Dr. Swathy Varma P R

Signature of candidate

Swetha R

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