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FEATURE ARTICLE

Avoiding Debt Traps During the Cost-of-Living and Fuel Crisis

With global economic uncertainty and imported inflation soon arriving at our shores, consumers across Fiji are going to start feeling the pinch of rising prices soon. From groceries to transport fares, electricity bills to school expenses, the cost of living is at serious risk of spiraling out of control.

When daily essentials become harder to afford, families often turn to borrowing as a way to bridge the gap. While credit can be helpful when used responsibly, it can also become a dangerous trap when taken without proper understanding of repayment obligations. This is especially true during periods of financial stress, where quick solutions may lead to long-term debt problems.

This article explores how rising living costs can push consumers toward high-interest borrowing, the risks associated with debt accumulation, and practical steps to avoid falling into a debt trap. It also highlights where consumers can seek guidance and support when they feel financially overwhelmed.

Understanding Debt Traps

A debt trap occurs when a borrower becomes stuck in a cycle of borrowing simply to repay existing debt. This usually happens when repayments exceed the borrower's ability to pay, leading them to take new loans to settle old ones. High-interest loans are a major contributor to this cycle. While they may provide short-term relief, they can quickly grow into unmanageable obligations due to interest charges, fees, and penalties.

Informal loans can also be risky. These arrangements are often made without written agreements, clear repayment terms, or legal protections. In many cases, borrowers may face pressure, intimidation, or escalating interest rates that are not clearly communicated at the start.

The danger is not always immediate. At first, borrowing may feel manageable. But over time, as multiple debts accumulate, households may find a significant portion of their income going towards repayments, leaving little for essential living expenses.

The Emotional and Social Impact of Debt

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Debt does not only affect finances, it can also take a toll on mental and emotional wellbeing. Many consumers under financial pressure report stress, anxiety, and difficulty sleeping. The fear of missing repayments or facing creditor pressure can create ongoing emotional strain.

In some cases, debt can also affect relationships within families. Financial disagreements may arise, especially when household income is already stretched. Parents may feel guilt for not being able to provide adequately for their children, while individuals may feel trapped and uncertain about how to regain control of their finances.

Understanding these impacts is important. Debt is not just a financial issue; it is a broader wellbeing concern that can affect daily life in multiple ways.

Borrowing Responsibly: Knowing Your Capacity

Not all borrowing is harmful. When managed properly, credit can help individuals achieve important goals such as education, home improvements, or managing emergencies. The key lies in responsible borrowing.

Before taking any loan or credit facility, consumers should consider the following:

- 1. Do I really need this loan?** It is important to distinguish between needs and wants. Borrowing for essentials or emergencies may be necessary, but borrowing for non-essential spending can create unnecessary financial pressure.
- 2. Can I afford the repayments?** Consumers should assess their monthly income and expenses honestly. A loan should only be taken if repayments can be comfortably met without sacrificing basic needs.
- 3. What are the total costs?** Interest rates, fees, and penalties should be clearly understood before agreeing to any credit arrangement. Sometimes a loan may seem small initially but becomes expensive over time.
- 4. What happens if I miss a payment?** Understanding the consequences of missed repayments is crucial. Late fees, increased interest, and negative credit impacts can make financial recovery more difficult.

Taking time to evaluate these questions can prevent financial hardship later on.

The Hidden Risks of Quick Credit Solutions

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During financial stress, consumers are often drawn to fast and easy credit options. However, convenience can sometimes mask risk.

Some lenders may not clearly explain repayment conditions. Others may encourage repeated borrowing without assessing the borrower's ability to repay. Informal lenders may charge extremely high interest rates that quickly spiral out of control.

It is also important to be cautious of “too good to be true” offers. Promotions that promise instant cash, no questions asked, or guaranteed approval should be carefully scrutinized.

Financial decisions made under pressure can have long-lasting consequences. Taking a moment to pause and think can make a significant difference.

Practical Steps to Avoid Debt Traps

While financial pressure cannot always be avoided, there are practical ways to reduce the risk of falling into a debt cycle:

- **Create a realistic budget**

A clear understanding of income and expenses helps identify where money is going and where adjustments can be made.

- **Prioritise essential spending**

Food, housing, utilities, and transport should be prioritised before non-essential purchases.

- **Build small savings where possible**

Even small savings can help manage unexpected expenses without relying on loans.

- **Avoid multiple loans at once**

Having several debts increases financial pressure and makes repayment more difficult.

- **Seek advice early**

Waiting until debt becomes unmanageable makes recovery harder. Early support can prevent escalation.

- **Compare options before borrowing**

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Not all credit providers offer the same terms. Taking time to compare can save money in the long run.

Where to Seek Help and Advice

Consumers do not have to face financial challenges alone. Seeking guidance early can make a significant difference in managing debt effectively. For any complaints, queries, or financial concerns related to borrowing, consumers are encouraged to reach out to the Council's Research Debt Management Officer through the National Consumer Helpline: 155.

Support is available to help consumers understand their rights, explore repayment options, and make informed financial decisions. Whether it is clarification on loan terms, assistance with debt-related concerns, or guidance on managing financial stress, help is just a phone call away.

Building Financial Resilience for the Future

While the current cost-of-living and fuel crisis presents real challenges, it also highlights the importance of financial resilience. Building stronger money management habits can help households better withstand future economic pressures. Financial literacy plays a key role in this process. Understanding how credit works, how interest accumulates, and how budgeting supports stability can empower consumers to make better decisions.

Communities, families, and individuals all benefit when financial awareness improves. Small changes in spending habits today can lead to greater security tomorrow.

Conclusion

Rising living costs are a reality that many households are currently facing. In such times, borrowing may seem like a quick solution, but without careful planning, it can lead to long-term financial stress. The key is not to avoid credit entirely, but to use it wisely. Responsible borrowing, informed decision-making, and early access to support services can help prevent debt traps and promote financial wellbeing.

Financial challenges may be real, but with the right knowledge and support, they can be managed, and overcome.

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