Financially Vulnerable and Financial Management Among Fresh Graduates Entering the Workforce: Youth Bankruptcy Soars

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ABSTRACT

Fresh graduates face a crucial period of financial transition when entering the workforce. Often unprepared for the responsibilities that accompany financial independence, many struggle with debt, budgeting, and savings. This paper provides evidence of the young generation nowadays exposed to bankruptcy. This paper also explores common financial behaviors, challenges, and management strategies relevant to young professionals beginning their careers. It emphasizes the importance of early financial literacy, proposes effective personal finance techniques, and outlines the potential role of institutions in supporting young adults' financial well-being. Recommendations include comprehensive budgeting practices, debt management, emergency savings, and educational interventions to build long-term financial stability.

Keywords: Financial, Workforce, Bankruptcy, Literacy, Stability

INTRODUCTION

The transition from academic life to employment signifies a significant life change, particularly in the realm of financial independence. For many fresh graduates, entering the workforce comes with the dual excitement and anxiety of managing money for the first time. As they begin to earn a stable income, they are also confronted with complex responsibilities such as repaying student loans, covering living expenses, and planning for their financial futures (Lusardi & Mitchell, 2014). Unfortunately, the lack of practical financial education leaves many unequipped to make informed financial decisions, potentially leading to long-term financial instability. This paper examines the financial behaviors of young adults post-graduation and suggests strategies to cultivate responsible financial management.

Bankruptcy serves as a legal solution for individuals overwhelmed by excessive debt and may be initiated voluntarily by the debtor (Sullivan, Waren, & Westbrook, 1989). According to the Malaysia Department of Insolvency, a bankrupt is someone who has been officially declared incapable of settling their outstanding debts. In essence, bankruptcy refers to the legal condition of a person or entity unable to fulfill financial obligations to creditors. In many jurisdictions, this status is conferred through a court order, typically initiated by the debtor. In Malaysia, failure to notify the issuing bank or financial institution upon being declared bankrupt constitutes an offense under the Bankruptcy Act 1967.

In contemporary Malaysia, the rising incidence of bankruptcy and financial insolvency among the younger generation has become a significant national concern. A World Bank report on Malaysia's economic outlook, released in December 2019, revealed that 60% of individual bankruptcy cases involved young individuals—largely due to the tendency to spend beyond their means (Berita Harian, 2019). As highlighted by Adzis et al. (2017), the spending behavior of youth plays a critical role in determining their risk of falling into excessive debt, potentially leading to insolvency or bankruptcy. Numerous young individuals have been declared bankrupt due to various forms of debt, including personal loans, car loans, housing loans, and credit card liabilities. Credit card debt, in particular, is frequently discussed as a contributing factor, as these financial tools remain easily accessible to young people, despite their limited knowledge and skills in managing them responsibly.

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Furthermore, there is growing evidence that many graduates have defaulted on their obligations under the National Higher Education Loan Fund (PTPTN). This concerning trend, compounded by increasing job insecurity caused by various factors, poses a serious threat to financial stability. Such conditions may contribute to a decline in quality of life, the emergence of social issues, and ultimately hinder national development efforts. Furthermore, when examining the current state of youth in Malaysia, it appears that many are focused on short-term goals and are often shielded from the practical challenges of the real world (Rose& Zariyawati, 2015).

Youth Bankruptcy Soars Financial Challenges Among Fresh Graduates

Evidence of young generation is on the verge of bankruptcy

Provided table of news and articles shows the proof of bankruptcy among young generation recently.

Statement	Sources
A total of 5,272 youths aged 34 and under have been declared bankrupt, accounting for 14.94 per cent of cases recorded between 2020 and 2025.	Bernama, 2025
Bankruptcy among youths on the rise, 877 cases recorded in 2024, more than 5,000 since 2020	Malay Mail, 2025
A total of 5,272 youth below the age of 34 have been declared bankrupt from 2020 to this year. 5,189 were aged 25 to 34, while 83 others were below 25.	Latest Headlines, 2025

Source: News' website, 2025

Factors Leading to Youth Bankruptcy

According to the insolvency department's records, the main cause of bankruptcy cases in 2024 was personal loans. It is follows by business loans (1,148 cases), housing loans (474 cases), other forms of debt (463 cases), vehicle hire-purchase loans (444 cases), corporate guarantees (383 cases), income tax debt (110 cases), credit card debt (89 cases), failure to contribute to EPF (77 cases), scholarships and student loans (nine cases), and social guarantees (4 cases) (Latest Headlines, 2025). This also could be summarize into few factors;

Lack of Financial Literacy

Financial literacy refers to the ability to understand and effectively use various financial skills, including personal financial management, budgeting, and investing. A lack of financial literacy is a critical factor contributing to bankruptcy among youth. Many young individuals transition into adulthood without the necessary knowledge to manage their finances responsibly. This lack of awareness often leads to mistakes such as over-borrowing, late payments, and poor investment decisions. Studies have consistently shown a correlation between financial illiteracy and poor financial behaviour (Lusardi & Mitchell, 2014). Without targeted financial education, youth remain vulnerable to debt accumulation and eventual financial collapse.

Overuse of Credit Facilities

Youth often gain access to credit cards and personal loans with limited understanding of interest rates, fees, and repayment terms. The overuse of such facilities is often driven by immediate consumption needs or peer influences, without adequate thought given to long-term consequences. According to Norvilitis et al. (2006), college students with higher credit card debt levels exhibited lower levels of financial responsibility. The normalization of credit use among youth, particularly for non-essential items, can result in overwhelming debt and increased likelihood of default and bankruptcy.

Unemployment or Underemployment

Many young people face difficulties in securing stable employment after graduation. The job market can be highly competitive, and youth often end up in low-paying, part-time, or gig economy jobs that do not provide sufficient income. According to the International Labour Organization (ILO, 2021), global youth unemployment remains significantly higher than adult unemployment, making it difficult for young individuals to achieve financial independence. As a result, they may rely on debt to meet basic needs, increasing the risk of financial insolvency.

Peer Pressure and Consumerism

Social influence and consumer culture heavily impact youth spending behaviour. The desire to match peer lifestyles and social media trends often drives excessive spending on branded clothing, gadgets, travel, and entertainment. According to John (1999), adolescents are particularly susceptible to consumer socialization and peer influence, which shapes their financial behaviors. This tendency to prioritize image over financial prudence can lead to poor money management and eventual bankruptcy.

Poor Financial Planning and Budgeting

Many young people lack the skills or discipline to manage their finances effectively. They may fail to budget, save, or set financial goals, making them more vulnerable to overspending and debt. According to research by Xiao and Porto (2017), young adults who do not engage in financial planning are more likely to experience financial hardship. Without a structured financial plan, they may be unable to cover emergencies or unexpected expenses, resulting in further borrowing and increased risk of bankruptcy.

Easy Access to Online Shopping and Buy Now Pay Later (BNPL) Platforms

The rise of e-commerce and BNPL platforms has created an environment where impulsive spending is encouraged. Services like Afterpay, Klarna, and others allow users to make purchases without paying upfront, often without interest if paid on time. While this can be beneficial if managed properly, it can also lead to excessive spending and multiple outstanding payments. According to ASIC (2020), many BNPL users, especially young people, missed payments or had to cut back on essentials to meet instalment obligations, which can contribute to financial distress and bankruptcy.

Student Debt Burden

One of the most pressing issues faced by new graduates is student loan repayment. According to the Organization for Economic Co-operation and Development (OECD, 2020), a large percentage of young adults enter the job market with considerable educational debt, affecting their disposable income and delaying major life milestones such as home ownership or marriage.

Lifestyle Inflation

Graduates often experience an increase in discretionary spending once they begin earning, a phenomenon known as lifestyle inflation. The temptation to upgrade lifestyles immediately after employment—such as buying new gadgets, vehicles, or moving into costlier housing—can quickly erode financial stability (Drexler et al., 2014).

Insufficient Savings

Fresh graduates typically have little or no emergency savings. Without a financial cushion, they are ill-equipped to handle unexpected expenses such as medical emergencies, job loss, or urgent travel, often resulting in reliance on high-interest credit (OECD, 2020).

Importance of Early Financial Management

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Early financial discipline is essential for creating long-term security. By developing sound financial habits, graduates can:

- Reduce financial stress and improve mental well-being.

- Build creditworthiness and qualify for loans or mortgages.

- Save for long-term goals like retirement or home ownership.

- Prevent debt accumulation and ensure financial independence.

Strategies for Effective Personal Finance Management

Budgeting and Expense Tracking

Budgeting is a cornerstone of financial management. It involves tracking income and categorizing expenditures to ensure that spending aligns with priorities. By creating a monthly or biweekly budget, fresh graduates can distinguish between needs and wants, set limits for discretionary spending, and allocate funds toward savings and debt repayment. Budgeting tools such as mobile apps (e.g., Mint, YNAB) or spreadsheets can streamline this process and offer insights into spending habits (Atkinson & Messy, 2012).

Emergency Fund Development

An emergency fund acts as a financial buffer against unexpected expenses, such as car repairs, medical emergencies, or sudden job loss. Fresh graduates should aim to save between three and six months' worth of living expenses. Establishing an emergency fund reduces reliance on credit cards and loans during financial crises and provides peace of mind (Friedline et al., 2013).

Debt Management

Graduates should approach debt with a structured plan. High-interest debt, particularly credit card debt, should be prioritized. The debt snowball method, where individuals pay off the smallest debts first, and the avalanche method, where debts with the highest interest rates are paid first, are two common approaches. Consolidating loans or negotiating repayment terms may also help ease the burden (Lusardi & Mitchell, 2014).

Investing and Retirement Planning

Although retirement may seem distant, early investing can significantly benefit young professionals due to compound interest. Graduates should consider employer-sponsored retirement plans, such as 401(k)s, and personal investment accounts like IRAs or mutual funds. Even small contributions made consistently over time can yield substantial returns. Basic investment education is essential to understand risks and rewards (OECD, 2020).

Financial Education

Financial education should be a lifelong pursuit. Beyond formal schooling, individuals can enhance their financial knowledge through online courses, podcasts, blogs, and books. Building financial literacy enables individuals to make informed decisions and avoid financial pitfalls. Resources such as Coursera, Khan Academy, and financial wellness seminars are accessible tools for ongoing learning.

The Role of Institutions and Employers

Educational Interventions

Universities and colleges can play a pivotal role by incorporating personal finance education into their curriculum. Courses on topics like budgeting, credit management, and investing can prepare students for real-world challenges. Financial literacy programs can also be integrated into orientation or graduation preparation sessions (Lusardi, 2019).

Employer Support Programs

Employers can offer financial wellness programs as part of employee benefits packages. These may include access to financial planners, workshops on saving and investing, and tools for retirement planning. Supporting financial education in the workplace not only benefits employees but also improves job satisfaction and productivity (Clark et al., 2020).

Government and Policy Support

Governments and policymakers can promote financial inclusion and literacy by funding educational initiatives, supporting nonprofit programs, and regulating transparent lending practices. Campaigns to educate young adults about responsible credit use, debt management, and savings can reduce national over-indebtedness and support economic stability.

CONCLUSION

The journey into financial independence presents both opportunities and challenges for fresh graduates. By developing strong financial habits early-such as budgeting, saving, and investing-young professionals can build a secure foundation for the future. While personal responsibility is key, support from educational institutions, employers, and government policies enhances financial success. Fostering a culture of financial literacy will not only empower individuals but also strengthen economic resilience in the broader society.

In summary, youth bankruptcy is a multifaceted issue driven by a combination of personal, social, and economic factors. Key contributors include a widespread lack of financial literacy, the overuse of credit facilities, and unstable employment conditions. Additionally, modern consumerist culture, peer pressure, and the influence of social media have further encouraged irresponsible spending behaviours among young individuals. The emergence of online shopping platforms and Buy Now Pay Later services has only exacerbated this trend by enabling immediate gratification with deferred financial consequences. Moreover, the high cost of living and burdensome student loans have placed considerable financial strain on youth, often leaving them with few options for sustainable financial management.

Addressing these challenges requires a comprehensive approach that includes improving financial education, regulating access to credit, and providing better economic opportunities for young people. By understanding and tackling the root causes of youth bankruptcy, stakeholders-including policymakers, educators, financial institutions, and families-can help foster a financially responsible generation and reduce the incidence of financial failure among young adults.

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