



# Perceptions and Attitudes of Indonesian Generation Z towards Debt

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## ABSTRACT

This research aims to understand the relationship between the demographic profile of Generation Z in Indonesia and their perceptions and behavior towards debt. Data collection was carried out through an online survey of 400 respondents in the period July to September 2023. Analysis of the data that had been collected was carried out using descriptive statistics, and continued using the Kruskal Wallis and Mann Whitney U Test to see more deeply whether there were statistically significant differences. between two or more independent variables. The results of this study found that there were significant differences in the influence of gender and income on their perceptions and behavior toward debt. Apart from that, there is no significant difference between level of education and employment and perceptions and behavior towards debt.

## INTRODUCTION

Internet access is now quicker, simpler, and more reasonably priced thanks to technological advancements, particularly in the areas of computers, mobile devices, and wireless networks. This affects the growth of internet users globally, especially in Indonesia. A study published by the Indonesian Internet Service Providers Association (APJII) projects that there will be 215,626,156 internet users in 2023, with the bulk of them being in the 13–34 age range. Changes in people's lifestyles, particularly in the financial sector, are influenced by trends in the usage of Internet technology. According to Bankrate's competitive savings survey, about half of Gen Z have online savings accounts at banks that don't have branches (Bennet, 2023).

Indonesia, with its large Generation Z population and rapid digital economic growth, is an interesting case to study. Moreover, OJK also said that this age group will lead Indonesia's growth in 2030 (OJK, 2022). Indeed, there has been previous research regarding the factors that

influence someone being in debt and their perception of debt. However, this research focuses more on previous generations such as baby boomers, generation X, and millennials. Therefore, by exploring the perceptions and attitudes of Generation Z in Indonesia, researchers will gain a better understanding of whether their perceptions and behavior are also influenced by differences in demographic factors.

To further explain Generation Z's perceptions and attitudes toward debt, this study will test the hypothesis that demographic conditions influence Generation Z's perceptions and attitudes toward debt. The demographic conditions and attitudes towards the debt of Generation Z itself have been studied in Michigan, USA by Squires & Ho (2023). This hypothesis needs to be tested in Indonesia because of the differences in culture, demographics, and consumer behavior between America and Indonesia. In this study, researchers want to measure how strong the influence of demographic conditions is on the perceptions and behavior of Generation Z in Indonesia towards debt.

## **LITERATURE REVIEW**

### ***Generation Z***

According to a McKinsey article, Generation Z is described as those who were born between 1996 and 2010. The digital age, COVID-19, changing financial conditions, and climate anxiety have all influenced this generation's identity. When the internet was first starting to be utilized extensively, the first generation of Z was born. They are the first generation to have grown up with the internet as a part of daily life, which is why they are known as the "digital natives."

Petrock (November 12, 2021) claims that when it comes to investing, saving, and money management, Generation Z has chosen a prudent and sensible strategy. They now want greater control and transparency in their financial transactions, which has made them less trusting of traditional financial institutions. Generation Z, the generation that was born into the digital age and has never lived without it, already do most of their banking and financial transactions online. Online banking is used by a sizable portion of Generation Z, and they also use fintech tools and apps more frequently than previous generations.

### ***Perception and Attitude toward Debt***

Davis (June 26, 2023) said that debt knows no generational bounds, yet the strain of financial obligations resonates differently among each age group. The demographic profile of Generation Z, which not only includes age but also gender, education level, and income, is related to a person's attitude toward debt. Individuals in Generation Z are sometimes highly afraid of falling into any kind of debt. While this is a good thing in some ways, because too much debt is frequently a terrible financial decision, Gen Z also has to develop credit and take on small and manageable debts to take out mortgages and loans for larger financial decisions later in life.

Previous research by Bialowolski et al. (2019) stated that women and men have significant differences in their attitudes toward debt. Most women think it is okay if the credit is used for a car or educational needs but not for normal household expenses (Almenberg et al., 2021). Meanwhile, other research shows that overall men have a greater tendency to take financial risks (Weber et al., 2002).

A case study by Squires and Ho (2023) of young consumers in rural Michigan, USA, found that the majority of Generation Z consumers have a cautious and conservative attitude towards debt, and most of Generation Z believe that using credit is wrong and incurring debt is not a good thing. This is consistent with studies by Almenberg et al (2018), who found that debt size had a similar influence on education or risk-taking. Furthermore, a substantial association was established between respondents' debt views and those of their parents, demonstrating that

debt attitudes have a cultural component that is passed down from generation to generation through the family line.

Han et al. (2018) said in their research that individuals with a higher degree of education are more likely to have a favorable attitude about debt since they understand the benefits of borrowing and repaying debts. Meanwhile, individuals with higher levels of education may have a more positive attitude towards debt, as they are more likely to understand the benefits of borrowing and repaying loans.

## METHODS

### *Data Collection Method*

The population in this study is Indonesian citizens who are included in the Generation Z category. The total amount of Generation Z in Indonesia according to data from the Ministry of Home Affairs (Kemendagri) is 68,662,815. The research sample was taken by random sampling method. This method selects a random sample from the population. With random sampling, each member of the population has the same opportunity to be selected as the sample. Meanwhile, to determine the number of samples, researchers used the Slovin Formula. Based on the Slovin formula, with a total population of 68,662,815 people and an error tolerance of 5%, the number of samples in this study will be 400.

Data for this research was collected by distributing offline online questionnaires via Google Forms (individual, social media group, and friends' connection) and online paid surveys using Populix. This research uses a 15-question online questionnaire with a five-point Likert scale as a research instrument to collect data from respondents. All the indicators in the questionnaire are based on previous research in a related field and were originally written in English. Those previous measurement items were then translated into Indonesian.

### *Questionnaire Development and Scale Item*

The questionnaire with 15 statements is divided into two parts. Part One contained three statements relating to demographic characteristics and personal information of respondents, but no names were collected, thereby preserving participants' privacy and anonymity. Part Two contains statements relating to respondents' attitudes and perceptions towards debt. The variables studied will be classified based on variables, question labels, measurement items, and sources used in the two tables below:

**Table 1: Questionnaire Scale Item**

| Likert Scale | Scale Description |                   |
|--------------|-------------------|-------------------|
| 1            | Never             | Strongly disagree |
| 2            | Rarely            | Disagree          |
| 3            | Sometimes         | Neutral           |
| 4            | Often             | Agree             |
| 5            | Always            | Strongly agree    |

### *Descriptive Statistics*

This study provides descriptive statistics to summarize the characteristics of the respondents. This section analyzes statistical data from several closed-ended questionnaire questions, including gender, education, employment status, and Income. Information will be presented related to their financial behavior, especially their perception and attitude toward debt.

**Table 2: Questionnaire Development**

| Variables      | Label | Measurement Items  | Source                            |
|----------------|-------|--|-----------------------------------|
| Demographic    | DM1   | Gender   | Squires, S. and Ho, H.W.L. (2023) |
|                | DM2   | Education level  |                                   |
|                | DM3   | Employment Status  |                                   |
| Debt Attitudes | DA1   | Debt stresses me out                                     | Squires, S. and Ho, H.W.L. (2023) |
|                | DA2   | Debt influences my life                                  |                                   |
|                | DA3   | Using credit is basically wrong                          |                                   |
|                | DA4   | I'd rather go hungry than buy food "on credit"           |                                   |
|                | DA5   | I plan ahead for larger purchases                        |                                   |
|                | DA6   | Being in debt is never a good thing                      |                                   |
|                | DA7   | It is important to live within one's means               |                                   |
|                | DA8   | Even on a low income, one should save a little regularly |                                   |
|                | DA9   | Borrowed money should be repaid as soon as possible      |                                   |
|                | DA10  | Most people run up too much debt                         |                                   |
|                | DA11  | It is too easy for people to get credit cards            |                                   |
|                | DA12  | I do not like borrowing money                            |                                   |

### ***Mann Whitney U and Kruskal Wallis Test***

The Mann-Whitney U and Kruskal-Wallis test are non-parametric statistical tests used to compare two or more groups. The Mann-Whitney U test was used to compare two independent groups. It is used to determine if there are significant differences between the medians of the two groups being compared. The test is based on the ranks of the data and does not assume that the data is normally distributed. The test statistic for Mann-Whitney U is denoted as U, and it is used to determine if there are significant differences between the two groups being compared. If the test result is significant, it indicates that the medians of the two groups are different.

While the Kruskal-Wallis test is an extension of the Mann-Whitney U test and is used when more than two groups are being compared. The test statistic for Kruskal-Wallis is denoted as H, and it is used to determine if there are significant differences between the groups being compared. If the test result is significant, it indicates that at least one of the group medians is different from the others. In the Kruskal-Wallis test, the test is based on the ranks of the data and does not assume that the data is normally distributed.

## **RESULTS**

### ***Demographic Profile***

Table 3 below shows the demographic picture of survey respondents consisting of 400 people in the Generation Z age group. We can see that this survey is dominated by female respondents, namely 54.5% of the total respondents. The majority of respondents were undergraduates at 63% of the total, while the second majority were diploma graduates at 21%. Almost all respondents surveyed were full-time employees, the percentage reached 92.8%, with the majority's monthly income being between IDR 2,500,000 and IDR 4,999,999, or 35% of the total sample. Even though almost all respondents are full-time employees, it can be seen that the majority of their income is below IDR 7,499,999. This might happen because currently, Generation Z is just entering the beginning of their working life.

**Table 3. Demographic Profile**

| Variables         |                             | Frequency | Percentage (%) |
|-------------------|-----------------------------|-----------|----------------|
| Gender            | Female                      | 218       | 54,5%          |
|                   | Male                        | 182       | 45,5%          |
| Educational Level | High School                 | 43        | 10,8%          |
|                   | Diploma                     | 84        | 21%            |
|                   | Bachelor                    | 252       | 63%            |
|                   | Master/Doctoral             | 21        | 5,3%           |
| Employment Status | Unemployed                  | 15        | 3,8%           |
|                   | Student                     | 7         | 1,8%           |
|                   | Part-time employee          | 7         | 1,8%           |
|                   | Full-time employee          | 371       | 92,8%          |
| Income            | < Rp 2.500.000              | 78        | 19,5%          |
|                   | Rp 2.500.000 – Rp 4.999.999 | 140       | 35%            |
|                   | Rp 5.000.000 – Rp 7.499.999 | 112       | 28%            |
|                   | Rp 7.500.000 – Rp 9.999.999 | 56        | 14%            |
|                   | > Rp 10.000.000             | 14        | 3,5%           |

**Table 4. Descriptive Statistic**

|                      | No of Item | Min | Max | Mean  | Std. Dev |
|----------------------|------------|-----|-----|-------|----------|
| Attitude toward Debt | 12         | 12  | 60  | 38,09 | 12,57714 |

**Table 5. Demographic Profile impact on Generation Z's Attitude toward Debt**

| Demographic Variable        | Percentage | Debt Attitude Mean Score | p-Value                  |
|-----------------------------|------------|--------------------------|--------------------------|
| <b>Gender</b>               |            |                          | 0,000 <sup>a</sup> (***) |
| Male                        | 54,50%     | 289,96                   | -                        |
| Female                      | 45,50%     | 93,34                    | -                        |
| <b>Educational Level</b>    |            |                          | 0,094 <sup>b</sup>       |
| High School                 | 10,80%     | 158,9                    | -                        |
| Diploma                     | 21%        | 201,52                   | -                        |
| Bachelor                    | 63%        | 206,67                   | -                        |
| Master/ Doctoral            | 5,30%      | 207,6                    | -                        |
| <b>Income</b>               |            |                          | 0,000 <sup>b</sup> (***) |
| < Rp 2.500.000              | 19,50%     | 245,42                   | 0,000 <sup>a</sup> (***) |
| Rp 2.500.000 - Rp 4.999.999 | 35%        | 207,1                    | 0,035 <sup>a</sup> (**)  |
| Rp 5.000.000 - Rp 7.499.999 | 28%        | 189,78                   | -                        |
| Rp 7.500.000 - Rp 9.999.999 | 14%        | 167,1                    | -                        |
| > Rp 10.000.000             | 3,50%      | 103,57                   | 0,000 <sup>a</sup> (***) |
| <b>Employment Status</b>    |            |                          | 0,700 <sup>b</sup>       |
| Unemployed                  | 3,80%      | 220,83                   | -                        |
| Student                     | 1,80%      | 219,5                    | -                        |
| Part-time worker            | 1,80%      | 162,36                   | -                        |
| Full-time worker            | 92,8%      | 200,04                   | -                        |

Note: The data analysis used the Mann-Whitney(a) and Kruskal-Wallis(b) \*p <0,1 (90% confidence level), \*\*p <0,05 (95% confidence level), \*\*\*p <0,01 (99% confidence level).

## DISCUSSION

### ***Descriptive Statistic***

Based on the descriptive analysis carried out, the results show that the attitude of Generation Z in Indonesia towards debt has an average score of 38.09. If the average score is divided by the total score, it can be said that 63.48% think that debt is not a good thing or they tend to prefer not to have debt with the lowest score being 12 and the highest score being 60 with a standard deviation of 12.57714. Meanwhile, if the average score is divided by the number of questions, you will get a result of 3.174. This figure shows that Generation Z tends to be afraid of having debt.

### ***Demographic Profiles' Impact on Attitude Toward Debt***

#### ***Gender***

Based on the results of the analysis shown in the table in the previous section, there are significant behavioral differences between men and women in the average value of attitude towards debt ( $p= 0.000^{***}$ ). These results are in line with other research that has been conducted previously which states that men and women differ in their attitudes towards debt (Białowolski et al., 2018). Based on research conducted by Squires and Ho (2022) in Michigan, USA on Generation Z, results were also obtained which stated that men tend to believe that the debt they have is under control. Meanwhile, Beale and Cude (2017) stated that men tend not to have a negative attitude towards debt while women have a more negative view towards debt. Basu (April 4, 2018) found that men have greater tolerance for using debt to buy luxury items, while women are more accepting of debt used in appropriate ways, including to bridge income gaps. The research showed that gender influences attitudes about debt, with women being less tempted than men to use debt to buy luxuries. With the results of this research, if a credit provider wants to reach a larger market and increase the number of users, perhaps they can provide outreach that services the credit they offer has minimal risk to target more female users, or provides various attractive credit programs for purchasing luxury goods to increase transactions among Generation Z men.

#### ***Educational Level***

There are no significant differences between the level of education that Generation Z has on their perceptions and attitudes towards debt mean score ( $p= 0.094$ ). This condition is in contrast to several studies that have been conducted previously. Brown et al., (2005) stated that higher levels of education usually mean higher financial literacy. And it is associated with more positive attitudes towards debt and better debt management. This suggests that education plays a crucial role in shaping individuals' attitudes towards debt and their financial decision-making. Other research shows that higher levels of debt, and greater debt tolerance, are found in students who have been in college longer. Increases in debt occur earlier in students' careers than increases in tolerance for debt (Davies and Lea, 1995). Meanwhile, if we look at the results of this research, in Indonesia, differences in education levels do not result in significant differences in attitudes toward debt. The relationship between educational level and attitudes towards debt itself is complex and multifaceted, involving factors such as financial literacy, income, perceived costs and benefits, social and psychological environment, and age. Further research is needed to better understand this relationship and its implications for debt management and financial decision-making. So, we need to do more in-depth research to better understand this relationship and its implications for debt attitude.

#### ***Income***

The results of this research found that the higher the income of a member of Generation Z, the more positive their attitudes and views toward debt will be ( $p\text{-value} = 0.000^{***}$ ). Generation Z with an income above 10 million rupiah tends to have a positive attitude towards debt ( $p\text{-}$

value=0.000\*\*\*), while Generation Z with a low income will tend to have a negative attitude towards debt which makes them more afraid of getting into debt (p-value=0.035\*\*). Meanwhile, Generation Z, who have middle-level incomes between 5 million rupiah and 10 million rupiah, tend to have no differences regarding their attitudes towards debt. These results are in line with previous research which states that individuals who report being uncomfortable with debt have significantly lower debt-to-income ratios (Almenberg et al, 2018). The study suggests that income plays a crucial role in shaping individuals' attitudes toward debt and their financial decision-making. Based on Almenberg et al., (2020) found that income and financial literacy are important factors that influence attitudes towards debt. The study suggests that individuals with higher incomes and greater financial literacy tend to have more positive attitudes toward debt and better debt management. These findings suggest that income is an important factor that can influence attitudes toward debt, with higher-income individuals tending to have more positive attitudes toward debt and better debt management.

### **Employment Status**

The results of the analysis of the employment status of Generation Z in Indonesia show that there is no significant difference between their employment status and their perceptions and attitudes towards debt (p-value=0.700). This means that in Indonesia itself, Generation Z's employment status will not affect their attitude towards debt. This is different from the results of a survey of full-time employees with unsecured debt conducted by the Financial Health Network which found that many employees struggled with their finances and used work time to manage their debt load. Meanwhile, previous research conducted by Hanka (1998) stated that high debt is currently associated with more frequent employment reductions, greater reliance on part-time and seasonal employees, and lower income.

### **CONCLUSION**

Based on the analysis carried out in the previous part, it can be concluded that the perception and attitude of Generation Z in Indonesia towards debt is significantly influenced by gender and income. Generation Z men have a more positive perception and attitude towards debt than women, which means they are more tolerant of debt ownership than women. Meanwhile, the results of a more detailed analysis also show that Generation Z with low income has negative perceptions and attitudes towards debt, in contrast to Generation Z with high income.

### **Suggestion**

Understanding more deeply how Generation Z perceives and behaves towards debt can help companies formulate product development and marketing strategies for their target market to be able to continue to be sustainable in the future. This research focuses on demographics in the Generation Z age group in Indonesia as a factor that influences perceptions and behavior toward debt. However, the relationship between a generation's demographic profile and attitudes towards debt is complex and varied, involving other factors not only gender, income, education level, and employment status, but also financial literacy, socioeconomic status, or cultural norms. Further research is needed to better understand this relationship and its implications for debt management and financial decision-making.

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