

Impact of Inflation on Household Consumption and Saving Behaviour in India

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Abstract: *Inflation is among one of the most important macroeconomic parameters impacting household economic decisions. An upward drift in the value of money affects the purchasing power of money and may affect the saving and spending pattern of households. The impact of inflation is more pronounced in India due to the importance of expenditure on food, fuel, transport, education and health care, among other items, on the expenditures of households. This research paper looks at the effects of inflation on consumption and saving behaviour of the households in India. It examines the theoretical linkages between inflation, real income, consumption expenditure and savings of the households and also discusses the empirical evidence from the Household Consumption Expenditure Survey (HCES) and Reserve Bank of India (RBI) publications for India. The study suggests that inflation can have a negative impact on households' level of discretionary spending by prompting them to trade up for cheaper alternatives, delay non-essential spending, and save less (or save more if expectations and incomes are negative). The effect varies across households, since income level, consumption pattern, and employment conditions affect household reaction to the impact, as do access to financial services and the expectations about future prices.*

Keywords: Inflation, Household Consumption, Household Savings, Purchasing Power, India, CPI, Financial Behaviour

I. INTRODUCTION

Inflation is the persistent upward trend of the overall price of goods and services in an economy over an extended time period. The higher the price, the less buying power a dollar has, so that a \$100 bill will buy fewer goods and services. The Ministry of Statistics and Programme Implementation (MoSPI) publishes Consumer Price Index (CPI) in India, which is a key index to track the price changes of goods and services consumed by households.

Households are one of the direct economic agents hit by inflation as price changes can impact their daily spending and cash flow. The cost of basic goods like food, transport, fuel, health, education and other essentials can take up a larger portion of household income. This can mean that the household will also have less income to spend on other things and to save. The impact can differ between households as a result of their financial resources, consumption habits and income.

The link between inflation and house-holding behaviour is significant for India where the consumption of households is a significant share of the economic activity. MoSPI's Household Consumption Expenditure Survey (HCES) supplies comprehensive data on the expenditure trends of households and is a valuable addition to the knowledge of consumption, economic status and disparities between rural and urban households.

Household behaviour can be impacted by inflation in a number of ways. Price increases are dampening real purchasing power, and better-than-expected price increases could affect purchase timing. Concurrently, uncertainty over future



prices, income and expenditure can impact on precautionary saving. There may also be a relationship between inflation and interest rates and the conditions of borrowing.

Hence, this paper investigates the effect of inflation on two closely related aspects of the household economic behaviour in India—that of consumption and saving.

II. OBJECTIVES OF THE STUDY

This research aims to:

- To analyse the correlation between inflation and consumption of households in India.
- To study the influence of inflation on saving patterns of the households.
- To learn the impact of inflation on essential and discretionary expenditure.
- To explore the influence of expectations of inflation on household decision-making.
- To get an understanding of the variation of the household responses in the rural and urban setting.
- To debate the consequences of inflation on the financial position of the households and economic policy.

III. REVIEW OF LITERATURE

Muduli, Nadhanael & Pattanaik (2022) analyzed inflation expectations of the households in India using a bias adjusted measure of inflation expectations. Their study is significant because not all households make their inflation expectations based on the official inflation rate as measured by the Consumer Price Index (CPI). The authors identified that their own consumption basket, their expectations of income and employment, interest rates, and supply-side shocks are factors that influence their household inflation expectations. Households' perceptions of inflation can be particularly sensitive to the purchase frequency of goods and changes in their prices. The study also revealed that bias-adjusted expectations of inflation for the household sector also became more closely linked to headline CPI inflation and had valuable information in predicting inflation. The results of this study indicate that perceptions of inflation may affect the economic decisions of households, such as their consumption and saving patterns.¹

Ghosh & Nath (2023) have examined the key factors affecting private saving and household saving behaviour in India, with data from 1960 to 2016. They conclude that in the short and long run, real per capita income and availability of banking services positively impact household saving. Importantly, the study revealed that a rise in inflation leads to a fall in household saving, because uncertainty about the value of future savings and a decrease in the real rate of return on saving are two effects that come from an increase in inflation. Households can also strive to keep the same level of real consumption if the prices rise, further curbing the amount available to save. The study thus identifies an important link between inflation and saving behaviour of the household and indicates that stable price, increasing real income and better access to banking services can help household saving in India.²

Shaw (2024) explored the connection among household consumption baskets and inflation expectations in India. The study suggests that the gap between the inflation expectations of households and the official inflation rate is partly due to the fact that households have different consumption baskets. Households pay more attention to products that they buy regularly, especially when the prices of these products increase significantly. Therefore, price changes in more frequently consumed items are likely to exert a greater influence on a household's inflation perceptions than price changes in less frequently bought items, if prices of frequently purchased goods change unexpectedly. The study is important for household consumption behavior since their perception of inflation might affect their consumption,

¹ Muduli, S., Nadhanael, G. V., & Pattanaik, S. (2022). Assessing inflation expectations adjusting for households' biases. *RBI Bulletin*. Reserve Bank of India.

² Ghosh, S. K., & Nath, H. K. (2023). What determines private and household savings in India? *International Review of Economics & Finance*, 86, 639–651. <https://doi.org/10.1016/j.iref.2023.03.032>



saving, investment, and other economic decisions. It suggests that an understanding of the impact of inflation on households should account for the specific consumption behaviour of households, not just aggregate measures of inflation.³

Shaw and Sinha (2024) analysed the usefulness of household inflation expectations for forecasting inflation at the state level in India. The authors used historical data from the Reserve Bank of India's Inflation Expectations Survey of Households (IESH) to build state-level inflation forecasts, and explored the possibility of using household inflation expectations as a source of information on future inflation. Their research is pertinent to the present study as inflation expectations affect the economic decisions of households. Households can also adjust their consumption and saving patterns in anticipation of price changes and the impact those changes will have on their purchasing power. The study also emphasizes the role of the household level survey data for the understanding of inflation dynamics in various parts of India.⁴

Nazir and Mir (2025) have empirically explored the relationship between inflation and household consumption in India with the help of annual data for the period 1991–2020. The study used the Augmented Dickey-Fuller test to test the stationarity of variables and Ordinary Least Squares (OLS) and diagnostic and stability tests. The results showed that there was a significantly negative correlation between inflation and household consumption expenditure in India. The results indicate that inflation can have a negative impact on household consumption through decreasing the purchasing power in the face of inflation and also adding financial burden on the households due to regular expenses. The study directly supports the latter proposition that inflation can have negative effects on household consumption. It is specially relevant for the present study as it investigates the relationship between inflation and consumption with the Indian macroeconomic data for a relatively long period of time.⁵

IV. METHODOLOGY

This research paper uses descriptive and analytical research methods.

Nature of Data

The data and information gathered in the study are mostly secondary and are retrieved from:

- Reserve Bank of India (RBI)
- Ministry of Statistics and Programme Implementation (MoSPI)
- Household Consumption Expenditure Survey (HCES)
- Consumer Price Index (CPI) data:
- Report on Current Assets and Liabilities of Banks
- Frequently cited publications and working papers released by the RBI.

MoSPI's HCES has a special significance because it gathers data on the consumption of goods and services and offers indicators like Monthly Per Capita Consumption Expenditure (MPCE).⁶

³ Shaw, P. (2024). Reading consumers' minds: An analysis of inflation expectations. *Macroeconomics and Finance in Emerging Market Economies*, 19(2), 251–278. <https://doi.org/10.1080/17520843.2024.2352955>

⁴ Shaw, P., & Sinha, R. K. (2024). *State-level inflation forecasts for India: Based on data from Inflation Expectations Survey of Households* (RBI Working Paper Series No. 09/2024). Reserve Bank of India.

⁵ Nazir, A., & Mir, S. A. (2025). Effects of inflation on household consumption expenditure: An empirical insights from the Indian economy. *Indian Journal of Human Development*, 19(1), 118–134. <https://doi.org/10.1177/09737030251346761>

⁶ International Monetary Fund. (2025). *India: 2024 Article IV consultation—Press release; staff report; and statement by the executive director for India*. International Monetary Fund.



Analytical Approach

The paper uses:

1. Descriptive analysis
2. Comparison of rural and urban consumption
3. Investigating the theoretical issues related to inflation and real income.

The analysis of the saving behavior of households has been conducted. Household saving behavior has been analyzed.

Result

Table 1: Average Monthly Per Capita Consumption Expenditure (MPCE), 2023–24

Sector	Average MPCE (₹ per month)
Rural	4,122
Urban	6,996

Interpretation

According to the given bar graph, the average monthly per-capita consumption expenditures in rural areas were ₹4,122 in 2023-24 while in urban areas were ₹6,996 in 2023-24. So, the urban MPCE was around 70% higher in nominal terms than the rural MPCE.⁷

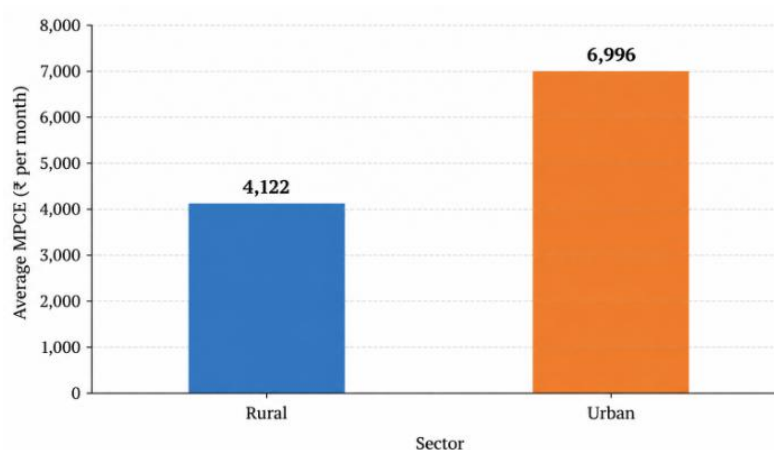


Figure 1: Average Monthly Per Capita Consumption Expenditure (MPCE), 2023–24

V. IMPACT OF INFLATION ON HOUSEHOLD CONSUMPTION

5.1 Reduction in Purchasing Power

Households' purchasing power is being eroded due to inflation that causes prices of goods and services to rise over time. If household income does not rise in line with the rate of inflation, the real value of income falls. Consequently households must use a bigger proportion of their income to buy the same amount of goods and services. This decreases the money that can be used for discretionary spending and saving. Household costs for necessities like food, shelter, transportation, healthcare and education increase, adding to the financial burden. This means that households' living standards and financial security are likely to be impacted by chronic inflation.⁸

⁷ Ministry of Statistics and Programme Implementation. (2024). *Household consumption expenditure survey 2022–23: Factsheet*. Government of India.

⁸ Ministry of Statistics and Programme Implementation. (2025). *Household consumption expenditure survey 2023–24*. Government of India. <https://www.mospi.gov.in/>



5.2 Reduction in Discretionary Consumption

When the price level rises, as inflation does, the downward sloping consumption function reflects the ability of household to shift spending in response to the decrease in their incomes. As the cost of essential goods and services rises, households spend a larger proportion of their budgets on essentials like food, housing, electricity, transportation, healthcare and education. This means that there is less money to be spent on other things. Households might cut back on entertainment, vacations, going out to eat, luxury items and some durable goods. Lower income families would be impacted more as a higher percentage of their income is already being used to meet essential needs. Therefore, the inflation can shift home spending priorities, leading to a decrease in the purchase of discretionary goods.⁹

5.3 Substitution Effect

The increase in the price of products can make households change their consumption patterns by replacing the relatively costly products with cheaper ones. If certain products have high price increases, consumers might opt for cheaper alternatives or for goods that serve a similar purpose. For instance, households can afford to buy less expensive food, and shop around, cut down on eating at restaurants and cook at home. Likewise, consumers can delay purchasing of high-quality products and opt for lower-cost options. This substitution behaviour is useful for households as a way to cope with constrained budgets in inflationary times. Constant substitution can also have a negative impact on the quality, diversity and composition of household consumption, however, as consumers become more price conscious.¹⁰

5.4 Effect on Durable Goods

Households may respond differently to inflation for durable goods like vehicles, refrigerator and TV, computers and appliances. If households anticipate that prices will continue to increase they may make their purchases ahead of time to prevent an increase in prices. This can bring in short-run increases in demand for durable goods. But as with anything, inflation also has a downside as it diminishes purchasing power, and can also cause uncertainty about future income and expenditure. This means that households might postpone major expenditure and focus on their essential expenditures. The ultimate impact thus depends on the income level of the household, confidence in the future price of the product, credit availability as well as general economic uncertainty. A sustained rise in inflation could be a particular challenge to sales by low-income consumers.¹¹

VI. IMPACT OF INFLATION ON HOUSEHOLD SAVING

6.1 Decline in Saving Capacity

Households may experience lower saving if the prices of goods and services rise more rapidly than their income. Expansion of the essential consumption cost pushes households to spend an increasing fraction of their disposable income on essentials. Thus, the savings of the individual is reduced. This may be more pronounced for households with relatively low earnings as essential expenditure accounts for a larger proportion of their budgets. The relationship between income, consumption and saving can be expressed as: $\text{Saving} = \text{Disposable Income} - \text{Consumption}$. Thus, as a result of inflation, when disposable income is fixed and consumption expenditure rises, saving rates by households tend to fall. It may also make it more challenging for households to build up financial savings and reach their longer-term financial objectives because of persistent inflation.¹²

⁹ Ministry of Statistics and Programme Implementation. (2025). *Household consumption expenditure survey 2023–24: Report No. 592*. Government of India.

¹⁰ Ministry of Statistics and Programme Implementation. (2026). *Consumer Price Index (CPI): Base 2024=100*. Government of India.

¹¹ Reserve Bank of India. (2024). *Consumer Confidence Survey: November 2024*. Reserve Bank of India.

¹² Reserve Bank of India. (2024). *Inflation expectations survey of households: November 2024*. Reserve Bank of India.



6.2 Precautionary Saving

Inflation also has the potential to affect the saving pattern of the household sector through rising expectations about future economic conditions. When households are uncertain about future prices and income/expense, they might try to save for precaution in order to meet future spending needs. These savings can also supply a monetary cushion for emergencies such as a medical bill, education costs and the loss of income or unexpected needs. There is a double saving effect with inflation, however. A rise in prices decreases the savings of households after covering their basic needs. A price increase, on the one hand, decreases the extent to which the household can save after paying for basic needs. Uncertainty on expected costs, however, might also raise households' incentive to keep a stockpile of emergency savings. Accordingly, the capacity to save can be lowered as a result of inflation, while the motivation to save can be raised, depending on the financial status, expectations and income of households.¹³

6.3 Shift in Forms of Saving

Inflation and economic conditions may affect both the amount of household saving and the way households save. Individuals can allocate the savings among bank deposits, insurance products, pension plans, mutual funds, gold, and property, based on such criteria as expected returns, liquidity, risk and protection against rising prices. When there are times of inflation, households might consider more carefully how much they can get back from a specific saving vehicle to keep buying the same amount of goods and services. But due to variation in income, financial knowledge, risk attitude and access to financial institution, the instrument of saving varies among households. The composition of household savings over time can be seen in RBI data. However, the changes are not solely due to inflation, as interest rates, income, financial conditions, and other economic variables are likely to affect saving decisions.¹⁴

VII. CONCLUSION

In India, the impact of inflation is more pronounced on the economic behavior of the households through the effect it has on consumption and saving behavior. Increases in prices lower the buying power of family income and raise the cost of families' necessary goods and services. Households can therefore cut discretionary spending, delay non-essential items, and change their spending decisions to deal with small budgets. The effect is more relevant if not more pronounced when the income of a household does not rise as fast as the overall price level.

There is a complex link between the rate of inflation and household saving. Increased inflation may also lower saving as savings must be increased to support consumption. Meanwhile, uncertainties over future prices and income and expenses may drive precautionary saving as a financial buffer in the households. Therefore, inflation can be a simultaneous decrease in the capacity to save, and an increase in the incentive to save for future consumption.¹⁵

A household's reaction to inflation varies. These can differ by income, by consumption, by locality, by financial services and financial expectations of future inflation. The recent HCES data is useful to know about the change in household consumption expenditure and the RBI research emphasized the role of inflation expectations in influencing the economic decisions of the household sector.

Overall, it is relevant to study the interaction between different levels of inflation and the consumption and saving behavior of households in understanding their welfare and economic behavior. Policies that assist households to

¹³ Reserve Bank of India. (2024). *State-level inflation forecasts for India: Based on data from Inflation Expectations Survey of Households* (RBI Working Paper Series No. 09/2024). Reserve Bank of India.

¹⁴ Reserve Bank of India. (2025). *Annual Report 2024–25*. Reserve Bank of India.

¹⁵ Reserve Bank of India. (2025). *Handbook of statistics on the Indian economy 2024–25*. Reserve Bank of India.



weather inflationary pressures and achieve greater financial stability include policies that support price stability, employment and vulnerable households, as well as financial awareness.

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