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INFLATION EXPECTATIONS, CONSUMER CONFIDENCE AND HOUSEHOLD SPENDING–SAVING BEHAVIOUR IN INDIA: A BEHAVIOURAL FINANCE PERSPECTIVE

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Abstract
Household financial decisions are influenced not only by income and prices but also by expectations, perceptions, confidence and behavioural tendencies. Behavioural finance provides a useful framework for understanding why actual household spending and saving decisions may differ from the predictions of purely rational models. The present study examines household spending and saving behaviour in India from a behavioural-finance perspective using secondary data. The study draws primarily on the Reserve Bank of India's Urban Consumer Confidence Survey (UCCS), Inflation Expectations Survey of Households, household financial savings data and payment-system indicators, supplemented by the Ministry of Statistics and Programme Implementation's Household Consumption Expenditure Survey. The analysis focuses on the period for which comparable recent UCCS observations are available and examines current and expected spending, essential and non-essential expenditure, consumer confidence, inflation expectations, digital-payment growth and household financial saving. The evidence indicates a persistent positive sentiment towards overall and essential spending, while non-essential spending remains substantially weaker. At the same time, digital payments have expanded rapidly and household net financial saving has fallen from the exceptional pandemic-era level before recovering moderately. The findings are interpreted through mental accounting, present bias, payment salience and the behavioural life-cycle hypothesis. The study contributes by integrating official Indian secondary data with behavioural-finance theory and by distinguishing observable behavioural patterns from psychological mechanisms that would require primary survey data.
Keywords: Behavioural Finance, Household Spending, Household Saving, Inflation Expectations, Consumer Confidence, Digital Payments, India

1. Introduction
Financial decision-making has traditionally been analysed on the assumption that households are rational economic agents who allocate income between consumption and saving after evaluating prices, income and expected returns. Behavioural finance challenges this assumption by recognising that financial decisions can be influenced by expectations, reference points, mental accounting, self-control, present bias and the psychological experience of gains and losses.

The household sector is particularly important to the Indian economy because household consumption represents a major component of domestic demand, while household saving provides resources for financial intermediation and investment. The relationship between saving and spending is therefore not simply an accounting issue; it also reflects how households perceive their current economic position and future financial security.

The rapid growth of digital payments adds another contemporary dimension. India's Unified Payments Interface (UPI) has transformed everyday transactions by reducing transaction time and payment friction. The Department of Financial Services reports that UPI transactions increased from about 92

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crore in FY2017-18 to 13,116 crore in FY2023-24, with further rapid growth in FY2024-25. Such a shift may have behavioural implications because digital payments can make expenditure less physically salient and can facilitate frequent low-value transactions.

Inflation expectations are equally important. Households make consumption and saving decisions partly on the basis of what they believe prices will be in the future. The Reserve Bank of India's Inflation Expectations Survey of Households has reported that one-year-ahead inflation expectations remained considerably above observed inflation in several recent rounds. This difference between current inflation and expected inflation provides a useful behavioural-finance context for examining household spending decisions.

Against this background, the present study examines Indian household spending–saving behaviour using official secondary data and interprets the observed patterns through selected behavioural-finance theories. The study deliberately avoids claiming that aggregate data directly measure psychological biases; instead, spending expectations, confidence and saving patterns are treated as observable indicators that can be interpreted through behavioural theory.

2. Review of Literature

Behavioural finance provides several explanations for deviations from conventional rational-choice models. Kahneman and Tversky's Prospect Theory explains how individuals evaluate gains and losses relative to reference points. Thaler's concept of mental accounting suggests that individuals mentally classify financial resources rather than treating all money as perfectly interchangeable. Shefrin and Thaler's Behavioural Life-Cycle Hypothesis incorporates self-control and mental accounting into household consumption and saving decisions.

Payment mechanisms can also affect spending. The psychological experience of paying with physical cash differs from paying through cards or digital interfaces. Digital payments reduce the visibility of physical money leaving the consumer and may therefore reduce the immediate salience of expenditure. Recent Indian evidence is particularly relevant: Agarwal et al. (2024), using the 2016 demonetisation episode as a natural experiment, found causal evidence that greater digital-payment adoption increased consumer spending.

A separate literature examines inflation expectations. Households may react to expected future price increases by bringing forward purchases, particularly for essential goods, or by increasing precautionary saving if they perceive future economic conditions as uncertain. The RBI's Inflation Expectations Survey provides repeated evidence on household perceptions and expectations of prices.

Indian studies also increasingly examine financial literacy, investment behaviour, saving patterns and digital-payment adoption. However, many studies use primary questionnaires and focus on respondent-level psychological variables. A secondary-data study that combines consumer confidence, spending expectations, inflation expectations, household financial saving and digital financialisation provides a complementary macro-behavioural perspective.

3. Research Gap

The literature review indicates four important gaps. First, a large proportion of Indian behavioural-finance studies rely on primary surveys to measure financial attitudes and psychological biases. Second, much of the empirical literature focuses on investment decisions rather than the broader spending–saving trade-off of households. Third, digital-payment research often examines adoption and technology

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acceptance without sufficiently connecting the payment environment with household saving and consumption behaviour. Fourth, there is scope to integrate repeated official household expectation data with household financial saving and consumption indicators in a single behavioural-finance framework.
The present study addresses these gaps by combining RBI consumer-confidence and inflation-expectation evidence with official household financial saving, consumption and digital-payment indicators. The contribution is therefore primarily integrative and empirical rather than a claim of individual-level causal identification.

4. Objectives of the Study

- To examine the recent pattern of household spending behaviour in India.
- To analyse the movement of essential and non-essential spending sentiments.
- To examine the relationship between inflation expectations, consumer confidence and household spending behaviour at an aggregate level.
- To examine the changing pattern of household financial saving in India.
- To interpret household spending–saving behaviour through selected behavioural-finance concepts in the digital era.

5. Hypotheses of the Study

H1: Inflation expectations are associated with household spending behaviour in India.
H2: Consumer confidence is associated with household spending behaviour in India.
H3: Essential spending sentiment is stronger than non-essential spending sentiment.
H4: Changes in household financial saving are associated with the post-pandemic normalisation of household consumption and financial behaviour.
H5: The rapid expansion of digital payments has important behavioural implications for household spending and saving.
Note: H1, H2 and H5 are interpreted as behavioural propositions in this secondary-data study. The aggregate data do not permit direct measurement of individual psychological mechanisms or a definitive causal test.

6. Research Methodology

The study adopts a descriptive and analytical research design based entirely on secondary data. The main sources are the Reserve Bank of India, Ministry of Statistics and Programme Implementation and Government of India financial-services publications.
Data Sources:

- Reserve Bank of India – Urban Consumer Confidence Survey (UCCS).
- Reserve Bank of India – Inflation Expectations Survey of Households (IESH).
- Reserve Bank of India – household financial savings and payment-system indicators.
- Ministry of Statistics and Programme Implementation – Household Consumption Expenditure Survey 2023-24.
- Department of Financial Services, Government of India – digital-payment/UPI statistics.
- Peer-reviewed literature on behavioural finance, digital payments and household consumption.

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Study Period: The main behavioural-sentiment analysis covers May 2024 to May 2025, for which a comparable sequence of urban UCCS observations was compiled. Longer-term contextual trends are presented for UPI and household financial saving.

Variables:

- Household spending behaviour – current spending net response.
- Essential spending – current essential-spending net response.
- Non-essential spending – current non-essential-spending net response.
- Consumer confidence – Current Situation Index (CSI) and Future Expectations Index (FEI).
- Inflation expectations – median household one-year-ahead inflation expectation.
- Household saving – net household financial saving as a percentage of the relevant income/GDP measure reported by RBI/NSO.
- Digital financialisation – UPI transaction volume and value.

Tools: Percentage analysis, trend analysis, comparative analysis, growth-rate analysis and behavioural interpretation are used. Because the principal survey indicators are repeated components of the RBI confidence indices and the available saving observations are annual, the study does not present an artificial regression model. This approach avoids overstating statistical causality from small and differently timed aggregate series.

7. Analysis and Interpretation

7.1 Recent Urban Household Spending Sentiment

The RBI Urban Consumer Confidence Survey indicates that overall spending sentiment remained strongly positive during the seven observed rounds from May 2024 to May 2025. The current spending net response increased from 72.5 in May 2024 to 79.0 in November 2024, before moderating slightly to 77.3 in May 2025. This indicates that households continued to perceive higher current expenditure despite fluctuations in overall consumer confidence.

Survey Round	Current Spending Net Response	Essential Spending Net Response	Non-essential Spending Net Response	CSI	FEI
May-24	72.5	82.9	-3.7	97.1	124.8
Jul-24	75.6	85.1	-5.4	93.9	120.7
Sep-24	77.6	86.2	-4.7	94.7	121.4
Nov-24	79.0	86.9	-2.4	94.0	121.9
Jan-25	77.9	86.0	-3.1	93.7	120.7
Mar-25	78.9	86.9	-2.2	95.5	122.4
May-25	77.3	86.1	-3.4	95.4	123.4

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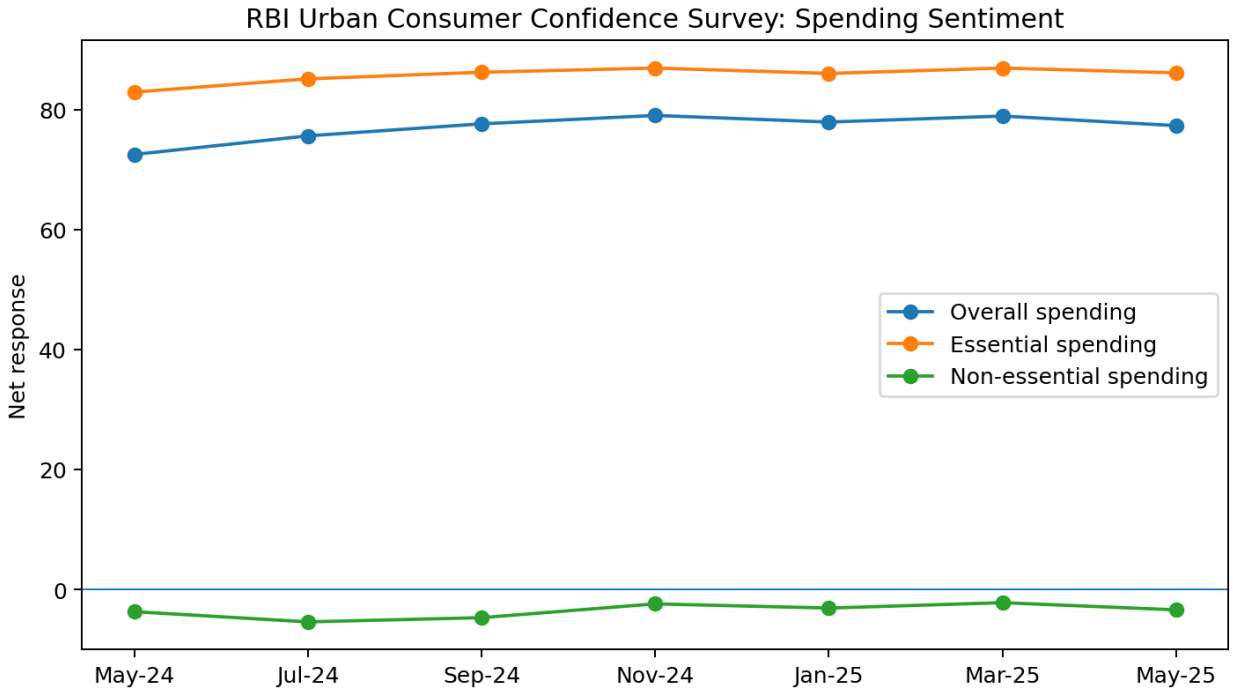


Figure 1. RBI Urban Consumer Confidence Survey: spending sentiment, May 2024–May 2025.

7.2 Essential versus Non-Essential Spending

The most striking feature is the difference between essential and non-essential spending. Essential-spending net responses remained above 82 in every observed round and reached 86.9 in November 2024 and again in March 2025. By contrast, non-essential spending remained negative throughout the period, ranging from -5.4 in July 2024 to -2.2 in March 2025. This suggests that households were considerably more willing to maintain or increase essential expenditure than discretionary expenditure.

From a behavioural-finance perspective, this pattern is consistent with mental accounting. Households may treat essential expenditure as relatively unavoidable while applying greater restraint to discretionary expenditure during periods of uncertainty. The persistent gap between essential and non-essential spending also suggests that headline spending sentiment can conceal substantial differences across expenditure categories.

7.3 Consumer Confidence and Household Expectations

The CSI remained below 100 in all seven observed rounds, indicating that current-period urban consumer sentiment was still in the pessimistic zone. The lowest CSI in the selected period was 93.7 in January 2025, followed by a recovery to 95.4 in May 2025. In contrast, the FEI remained above 120 throughout the period, indicating optimism regarding the year ahead. The coexistence of weak current sentiment and stronger future expectations is important from a behavioural perspective: households may be cautious about present conditions while still expecting improvement in their future financial position.

This divergence is also relevant to the Behavioural Life-Cycle Hypothesis. Consumption decisions depend not only on current resources but also on perceptions of future resources and self-control over

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consumption. The positive FEI alongside strong overall spending expectations therefore provides evidence of an optimistic future orientation even when current sentiment is below the neutral level.

7.4 Inflation Expectations and Spending Behaviour

RBI's household inflation-expectations evidence shows that households' expected inflation can remain substantially higher than current observed inflation. In March 2025, the one-year-ahead median inflation expectation of urban households was 9.7 per cent, while the three-month-ahead expectation was 8.9 per cent. In May 2025, the one-year-ahead expectation declined to 9.5 per cent and current inflation perception eased to 7.7 per cent. These figures indicate that households continued to anticipate significant price pressure even as current perceptions moderated.

Such expectations may affect spending through two opposing behavioural mechanisms. First, households may advance essential purchases when they expect prices to rise further. Second, households facing uncertainty may restrict discretionary spending and increase precautionary saving. The UCCS pattern—strong essential-spending sentiment alongside weak non-essential spending sentiment—is consistent with the possibility that both mechanisms operate simultaneously.

7.5 Growth of Digital Payments in India

India's digital-payment environment has expanded rapidly. UPI transaction volume increased from about 92 crore in FY2017-18 to 13,116 crore in FY2023-24. The value of UPI transactions increased from about ₹1.10 lakh crore to approximately ₹199.9 lakh crore over the same period. Government reporting indicates that UPI continued to expand rapidly in FY2024-25 and had become the dominant digital retail-payment channel.

Financial Year	UPI Volume (crore)	UPI Value (₹ lakh crore)
2017-18	92	₹1.1
2018-19	535	₹5.3
2019-20	1,252	₹21.3
2020-21	2,233	₹41.0
2021-22	4,597	₹84.2
2022-23	8,375	₹139.2
2023-24	13,116	₹199.9
2024-25	20,100	₹260.6

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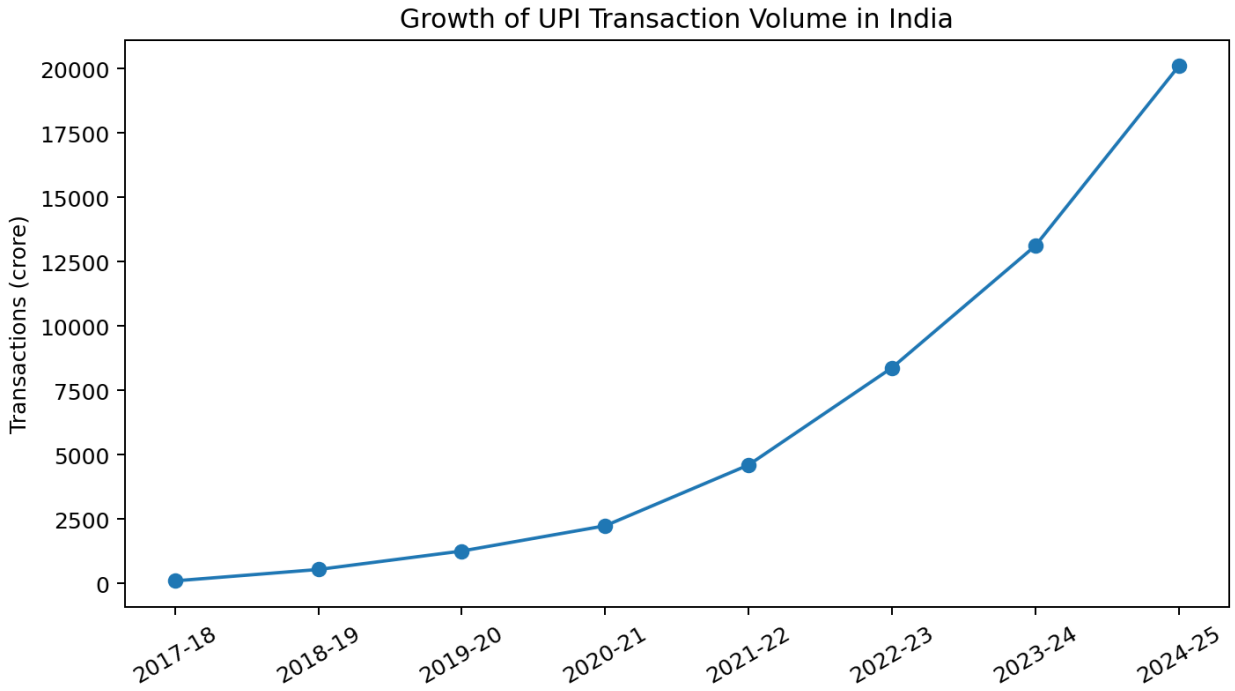


Figure 2. Growth of UPI transaction volume in India.

Digital payments are not treated in this study as a direct causal determinant of aggregate household expenditure. Instead, they represent the changing financial environment in which spending decisions occur. The behavioural-finance relevance arises from reduced transaction friction, lower payment salience and the ease of making repeated low-value transactions.

7.6 Household Financial Saving

Household financial saving showed an exceptional increase during the pandemic period, followed by a substantial normalisation as consumption and investment recovered. RBI reported net household financial saving at 11.6 per cent of the relevant income measure in 2020-21, compared with 7.6 per cent in 2019-20. It then declined to 7.2 per cent in 2021-22 and 5.2 per cent in 2022-23, before remaining around 5.2 per cent in 2023-24 and recovering to about 6.0 per cent in 2024-25 on the latest preliminary estimates.

Year	Net Household Financial Saving
2019-20	7.6%
2020-21	11.6%
2021-22	7.2%
2022-23	5.2%
2023-24	5.2%
2024-25	6.0%

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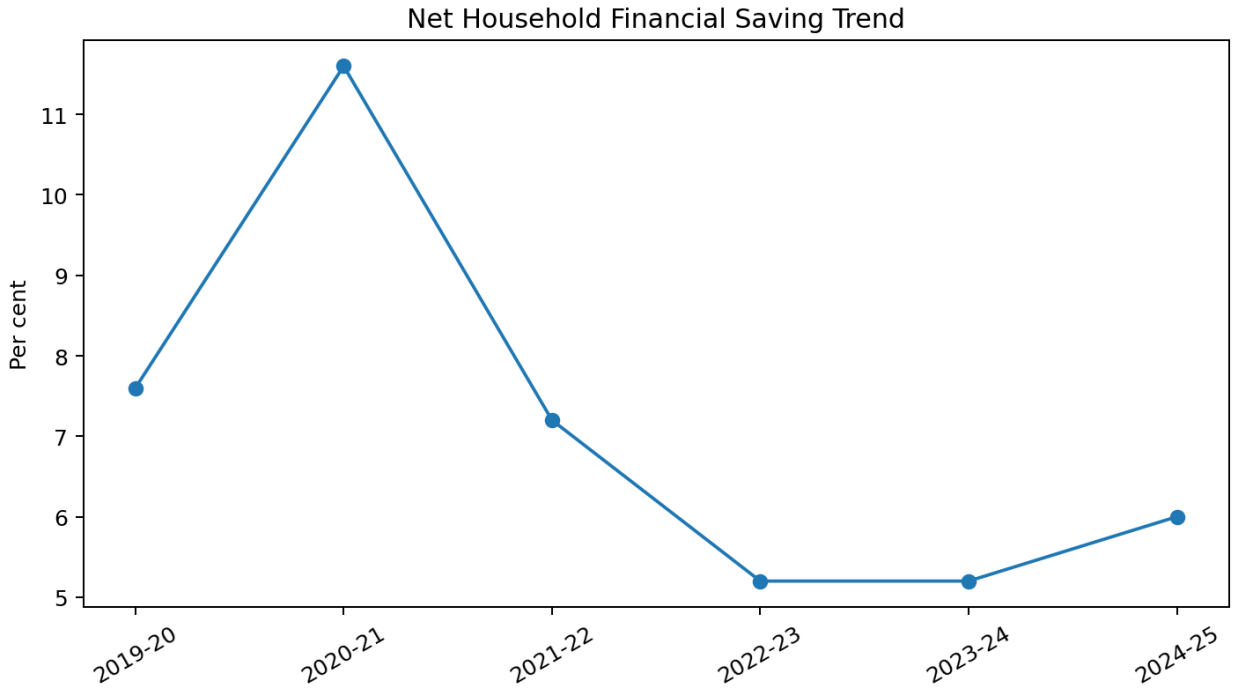


Figure 3. Net household financial saving trend, selected years.

The movement is consistent with a behavioural normalisation story. During the pandemic, mobility restrictions reduced consumption opportunities and increased precautionary financial saving. With reopening and pent-up demand, households drew down part of the accumulated excess financial savings. The later recovery in net financial saving suggests that the saving behaviour is not static and responds to changing economic conditions and household expectations.

7.7 Household Consumption Context

The Household Consumption Expenditure Survey 2023-24 reports average monthly per-capita consumption expenditure of ₹4,122 in rural India and ₹6,996 in urban India. In urban India, non-food expenditure accounted for 60.32 per cent of MPCE, compared with 39.68 per cent for food. This composition indicates the importance of discretionary and service-related consumption in urban household budgets, while also highlighting why behavioural responses to confidence and inflation can have substantial demand implications.

Indicator	Rural India	Urban India
Average MPCE, 2023-24	₹4,122	₹6,996
Food share	47.04%	39.68%
Non-food share	52.96%	60.32%

7.8 Behavioural Finance Interpretation

The observed secondary-data patterns can be interpreted through four behavioural-finance concepts.

Mental Accounting: The large and persistent gap between essential and non-essential spending is consistent with households mentally separating unavoidable expenditure from discretionary expenditure.

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Present Bias: The continuing strength of current spending, alongside lower non-essential spending, suggests that households balance immediate needs against future uncertainty rather than following a single uniform consumption rule.
Payment Salience: The expansion of UPI and other digital payments may reduce the physical salience of expenditure. This can make repeated small-value transactions easier, although the present study cannot directly measure this psychological mechanism.
Behavioural Life-Cycle Hypothesis: The movement in household financial saving—from the pandemic peak to the post-pandemic decline and subsequent partial recovery—is consistent with changes in self-control, consumption opportunities and perceptions of future financial resources.
These interpretations should be treated as theoretical explanations of aggregate patterns rather than direct measures of psychological bias. Direct measurement of mental accounting, present bias or self-control would require respondent-level primary data.

8. Major Findings

- Overall household spending sentiment remained strongly positive during the selected UCCS period from May 2024 to May 2025.
- Essential spending sentiment was consistently very strong, with net responses above 82 in all observed rounds.
- Non-essential spending sentiment remained negative in all observed rounds, indicating greater caution toward discretionary expenditure.
- Current Situation Index values remained below 100, while Future Expectations Index values remained above 120, showing pessimism about present conditions but optimism about the future.
- Urban households' one-year-ahead inflation expectations remained elevated even as current inflation perceptions moderated.
- UPI has expanded extraordinarily rapidly, changing the payment environment in which households make consumption decisions.
- Net household financial saving increased sharply during the pandemic, declined as consumption normalised and showed a moderate recovery in 2024-25.
- Urban India recorded average MPCE of ₹6,996 in 2023-24, with non-food items accounting for 60.32 per cent of MPCE.
- The evidence supports a behavioural interpretation of household spending and saving, but the secondary data do not establish individual-level psychological mechanisms or causality.

9. Suggestions

- Financial-literacy programmes should address not only investment knowledge but also day-to-day budgeting, discretionary spending and saving discipline.
- Digital-payment applications should provide clear monthly expenditure summaries and category-wise spending alerts to reduce the possibility of unnoticed small-value expenditure.
- Consumers should periodically review digital transaction histories and distinguish essential expenditure from discretionary purchases.
- Financial institutions and fintech platforms can integrate budgeting, goal-based saving and spending-limit tools into digital payment interfaces.

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- Policy communication should recognise the importance of household inflation expectations because perceived future prices can influence current consumption decisions.
- Researchers should combine official secondary indicators with primary household surveys to measure mental accounting, present bias, payment salience and self-control directly.

10. Limitations

The first limitation is that the principal behavioural indicators are aggregate survey measures. They do not directly measure individual psychological constructs such as loss aversion, overconfidence, present bias or mental accounting.

The second limitation is that the datasets operate at different frequencies. Consumer-confidence and inflation-expectation surveys are conducted periodically, while household financial saving is primarily reported on an annual basis and payment data are available at high frequency. Consequently, the study emphasises trend and comparative analysis rather than an artificial regression combining incompatible frequencies.

The third limitation is that digital-payment growth cannot be interpreted as proof that digital payments caused changes in household expenditure. Income, inflation, employment, e-commerce, financial inclusion and other factors may influence both payment behaviour and consumption.

The fourth limitation is that some recent household saving estimates are preliminary and subject to revision. The results should therefore be interpreted as evidence from the currently available official data rather than as final estimates for all years.

11. Conclusion

Household saving and spending decisions in India are shaped by more than current income and prices. The evidence from the RBI's consumer-confidence and inflation-expectation surveys shows that households simultaneously respond to present conditions and expectations about the future. The selected UCCS rounds reveal a particularly important distinction: essential spending remains strongly positive, whereas non-essential spending remains weak. This indicates that households do not adjust all categories of expenditure in the same manner.

The movement in household financial saving provides a complementary picture. Financial saving rose sharply during the pandemic when consumption opportunities were restricted, declined as households returned to normal consumption and investment patterns, and showed a moderate recovery in the latest preliminary estimates. At the same time, the rapid expansion of digital payments has transformed the environment in which consumption takes place.

From a behavioural-finance perspective, these patterns are consistent with mental accounting, present bias, payment salience and the Behavioural Life-Cycle Hypothesis. However, the study deliberately avoids claiming that aggregate secondary data directly measure these psychological mechanisms. The principal contribution of the paper is therefore to demonstrate how official Indian household expectations, spending, saving and digital-payment data can be brought together to develop a contemporary behavioural-finance interpretation of household financial behaviour.

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Future research should extend this secondary-data framework through a primary survey of Indian households. Such a mixed-method approach would permit direct testing of psychological constructs and would provide stronger evidence on how inflation expectations, digital payments and financial self-control jointly influence the household spending–saving decision.

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Data note: All numerical secondary-data values used in the empirical section are based on official RBI/MoSPI/Government of India releases identified in the preparation of this paper. The study uses descriptive and comparative analysis where series are not directly comparable across frequency or construction.