

INFLATION AND COST OF LIVING IN INDIA WITH SPECIAL REFERENCE TO BANGALORE

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Abstract—Inflation and the rising cost of living remain central concerns in Indian economic discourse, shaping household budgets and standards of living. This paper analyses inflationary trends in India, tracing their historical evolution and examining the monetary, structural and external factors behind price changes. Using secondary data from MoSPI, RBI and government sources, it reviews 2025-26 CPI and food inflation trends, showing that food prices, not the broad price level, have driven the recent uptick and that rural and low-income households bear a disproportionate burden. As a focused case, the paper examines Bangalore, where rent inflation has outpaced income growth, disaggregating cost pressure by expenditure category and population group. It weighs the merits of moderate inflation against the costs of persistent high inflation, and offers policy suggestions on supply chains, housing and monetary-fiscal coordination. The study concludes that while headline inflation remains within the RBI's target band, coordinated action is needed to protect vulnerable groups from eroding purchasing power.

Index Terms—Inflation, Cost of Living, Consumer Price Index, Purchasing Power, Monetary Policy, RBI, Bangalore, Urban Housing

I. Introduction

Inflation — the sustained rise in the general price level — is felt by ordinary citizens not as a statistic but as rising grocery, transport, housing and healthcare bills. The 'cost of living' is the money needed to sustain a given standard of living in a place and time; when inflation outpaces income growth, real purchasing power erodes, hurting low- and middle-income households most, since they spend a larger share of income on essentials.

India's inflation is shaped by domestic factors (monsoon, agricultural output, fiscal policy) and external ones (crude oil prices, currency movements, geopolitics). Since 2016 the RBI has targeted 4 percent CPI inflation within a 2-6 percent band. This paper examines how inflation is measured, what drives it, and how it translates into cost-of-living pressure nationally and in Bangalore specifically.

Inflation refers to a sustained increase in the general price level of goods and services in an economy, which leads to a decline in the purchasing power of money. Increasing inflation adversely affects the Indian economy by raising the cost of living and reducing the real purchasing power of households. It can also affect household consumption, savings, and investment decisions by creating uncertainty about future prices and income. Persistent inflation may increase the cost of production, thereby affecting businesses, employment, and overall economic activity. Therefore, controlling inflation is essential for maintaining price stability, protecting purchasing power, and promoting sustainable economic growth in India.

II. Historical Background

Indian inflation has passed through distinct phases. In the planned-economy era (1950s-1980s), price movements were driven mainly by supply shocks — poor monsoons, wars, and the 1970s oil shocks — managed through price controls and public distribution. The 1991 balance-of-payments crisis triggered liberalisation, opening markets and making monetary policy a more active stabilisation tool, though inflation stayed volatile through the 1990s and 2000s. The 2008 global financial crisis ushered in a high-inflation phase, with CPI inflation peaking above 12 percent around 2009-10 amid a global commodity surge and food price pressure. Since the adoption of flexible inflation targeting in 2016, inflation has moderated considerably, apart from temporary spikes during the pandemic and subsequent global supply disruptions; through 2025-26 it has generally stayed within the RBI's target band, though food and fuel components remain volatile.

III. Review of Literature

Classical and monetarist economists, notably Milton Friedman, viewed inflation as fundamentally a monetary phenomenon driven by money-supply growth outpacing output. Keynes emphasised demand-pull inflation, arising when aggregate demand exceeds productive capacity, while cost-push explanations attribute price rises to rising wages, materials and energy costs passed on to consumers. RBI Monetary Policy Reports and the Economic Survey of India consistently highlight food inflation's outsized role in India's headline CPI, given food's large weight in the consumption basket, while MoSPI data documents persistently higher rural inflation exposure. NSSO Consumer Expenditure Survey-based studies show inflation affects income groups unequally: because poorer households spend more on food and fuel, they face a higher 'effective' inflation rate than headline figures suggest.

Keshava (2023) explains that the economics of theatre in India is closely influenced by differences in economic conditions between rural and urban areas. Urban areas generally involve higher production costs and greater financial requirements, which are associated with the broader increase in the cost of living and expenses faced by urban households. Rising costs can also place pressure on urban housing, as higher demand for accommodation and limited resources contribute to increased household expenditure. These economic pressures may influence the affordability of cultural and recreational activities, particularly for households with limited disposable income. Thus, inflation, rising living costs, and urban housing expenses can indirectly shape the participation of individuals and communities in cultural activities such as theatre.

Keshava and Hanumantharayappa (2025) examined the changing incidence of poverty in India following economic reforms, with particular emphasis on government-led poverty alleviation and development programmes. Using secondary data, the study analysed the long-term trend in poverty reduction and highlighted the contribution of government interventions, digital initiatives, community participation, and inclusive development. The study concluded that sustained policy interventions have contributed significantly to reducing poverty and improving the socio-economic conditions of vulnerable sections of society.

IV. Objectives

1. To trace the historical evolution of inflation in India.
2. To examine 2025-26 CPI and food inflation trends.
3. To identify key drivers of rising inflation and cost of living.

4. To examine Bangalore as a city-level case study by expenditure category and population group.
5. To evaluate the merits and demerits of inflation and suggest policy measures.

V. Research Methodology

This is a descriptive, analytical study based entirely on secondary data — MoSPI and PIB press releases, RBI Monetary Policy Reports, the Economic Survey of India, NSSO surveys, and reputed cost-of-living data sources — covering April 2025 to July 2026, with historical context since 1991. Descriptive statistical tools (trend and percentage analysis, tabulation) are used to interpret month-on-month and year-on-year changes. Limitations include reliance on provisional, officially revised figures and the absence of primary household-level surveys or state/district-level disaggregation.

Proposed Timeline

Phase	Period	Activity
Literature survey	Week 1-2	Review of RBI, MoSPI, Economic Survey
Data collection	Week 3-4	Compilation of CPI/CFPI data
Analysis & drafting	Week 5-7	Trend analysis and writing
Review & finalisation	Week 8	Proofreading and submission

VI. Data Analysis

Table 1 shows CPI and food inflation trends (MoSPI/PIB data).

Table 1: CPI and Food Inflation, March-June 2026

Month	CPI (%)	CFPI (%)	Rural (%)	Urban (%)
Mar 2026	3.40	3.87	3.63	3.11
Apr 2026	3.48	4.20*	-	-
May 2026	3.93	4.78	4.25	3.53
Jun 2026	4.38	5.32	-	-

- CPI inflation rose from 3.40% (Mar) to 4.38% (Jun 2026), nearing/crossing the RBI's 4% target.
- Food inflation (CFPI) drove the rise, from 3.87% to 5.32%, led by tomatoes and ginger.
- Rural inflation exceeded urban inflation, reflecting a heavier rural cost-of-living burden.

- Housing/utilities inflation stayed subdued (~2%); transport rebounded on delayed energy-price pass-through.

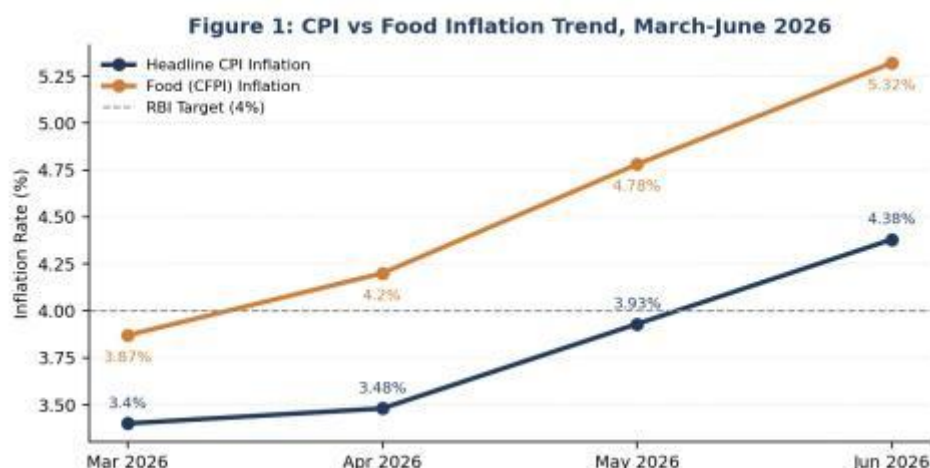


Figure 1: CPI vs Food Inflation Trend, March-June 2026 (Source: MoSPI/PIB)

Although headline inflation remains within the RBI's 2-6% band, the food-led rise between March and June 2026 disproportionately affects rural and low-income households, for whom food is a much larger expenditure share than headline CPI implies.

VII. Bangalore: A City-Level Case Study

Bangalore illustrates how national trends translate unevenly at city level. Unlike the national CPI, Bangalore's cost pressure is concentrated in housing, reflecting rapid IT-led migration and constrained premium-zone supply. Rents rose roughly 12-18% between 2023 and 2026, with median rent estimated to absorb around 70% of average local salary — well above the 30% affordability benchmark.

Table 2: Indicative 1BHK Rent by Locality (2026)

Locality Type	Example Areas	Rent (₹/month)
Premium/IT-corridor	Indiranagar, Koramangala, Whitefield	20,000-30,000
Mid-range	HSR Layout, outer Whitefield	18,000-28,000
Budget/peripheral	Electronic City, Yelahanka, KR Puram	8,000-15,000

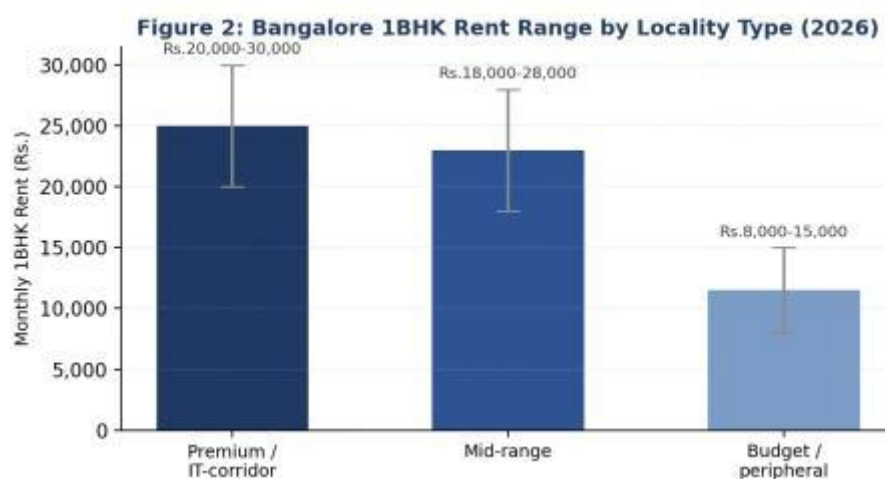


Figure 2: Bangalore 1BHK Rent Range by Locality Type (2026)

Food costs remain flexible (home cooking is affordable; eating out at ₹250-500/meal adds up quickly), while transport costs ease with Metro proximity and utilities add ₹2,200-5,300/month.

Table 3: Indicative Monthly Budget by Group (2026)

Group	Budget (₹/month)	Cost Pressure
Student (shared PG)	18,000-22,000	Rent + delivery habits
Single IT professional	45,000-55,000	Rent inflation
Working couple	80,000-1,00,000	Rent + eating out
Family with children	1,20,000-1,80,000	Rent + school fees
Low-income/migrant worker	Below 20,000	Rent-to-income squeeze

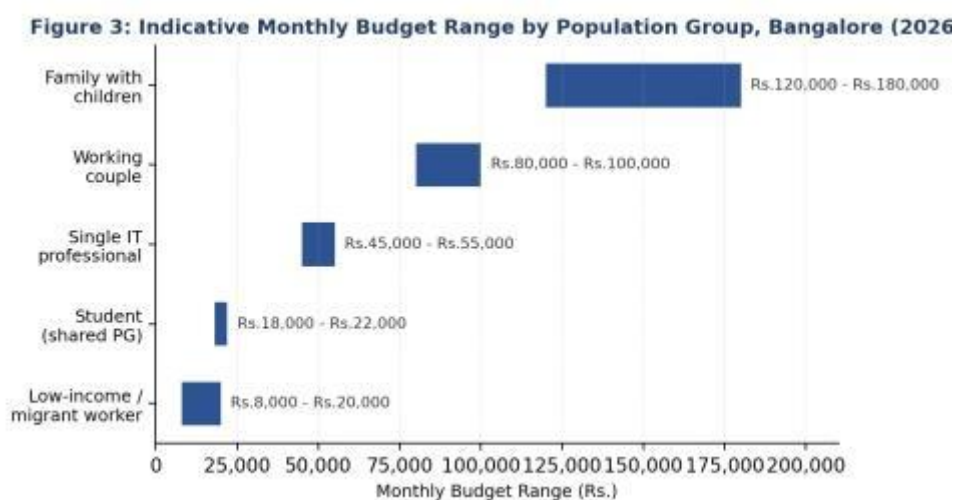


Figure 3: Indicative Monthly Budget Range by Population Group, Bangalore (2026)

IT professionals face the steepest rent inflation and are shifting to coliving for predictable costs; families with children carry the highest overall burden; low-income and migrant workers face the sharpest rent-to-income squeeze, as wages have not kept pace with rents. Bangalore's cost-of-living stress is thus primarily a housing-supply and wage-inequality issue rather than broad-based price inflation.

VIII. Merits and Demerits of Inflation

Merits of Moderate Inflation	Demerits of High/Persistent Inflation
Discourages cash hoarding, encourages spending/investment	Erodes real purchasing power, especially fixed incomes
Eases real burden of debt for borrowers	Disproportionately burdens low-income, rural households
Signals healthy demand, supports growth	Discourages savings and fixed-income returns
Gives central banks room for rate cuts	Creates uncertainty, deters long-term investment
Supports nominal GDP and tax revenue	Can trigger a self-reinforcing wage-price spiral

IX. Findings of the Study

a. Inflation in India has moderated over time, but remains vulnerable to supply-side shocks:

The study finds that India's inflationary experience has changed significantly from the planned-economy period to the present inflation-targeting regime. Since the adoption of flexible inflation targeting in 2016, inflation has generally remained more stable, although food and fuel prices continue to show considerable volatility.

b. Food inflation has been the major factor behind the recent increase in inflation:

CPI inflation increased from 3.40% in March 2026 to 4.38% in June 2026, while food inflation, measured through CFPI, increased more sharply from 3.87% to 5.32% during the same period. This indicates that the recent increase in headline inflation was primarily food-driven rather than the result of a broad-based increase across all expenditure categories.

c. Rural households face a greater cost-of-living burden than urban households.

The analysis indicates that rural inflation exceeded urban inflation during the period examined. Since rural and low-income households allocate a relatively larger proportion of their expenditure to food and essential commodities, increases in food prices have a disproportionately greater effect on their real purchasing power.

d. Inflation has an unequal impact across income groups.

The study highlights that low-income households experience a greater effective inflation burden because essential expenditure constitutes a larger share of their income. Consequently, persistent increases in food, housing and other essential expenses reduce their purchasing power more severely than that of higher-income households.

e. Bangalore's cost-of-living pressure is primarily associated with housing costs.

Unlike the broader national inflation pattern, the Bangalore case study indicates that housing and rent inflation are the major sources of cost-of-living pressure. Rents increased substantially between 2023 and 2026, particularly in premium IT corridors such as Indiranagar, Koramangala and Whitefield.

f. Rent constitutes a significant financial burden for Bangalore households.

The study estimates that median rent can absorb around 70% of the average local salary, substantially exceeding the commonly used 30% affordability benchmark. This creates a significant rent-to-income squeeze, particularly for low-income workers and migrants.

g. The impact of rising living costs differs among population groups in Bangalore.

Students, IT professionals, working couples, families with children and low-income/migrant workers experience different forms of cost pressure. Families face substantial expenditure on rent and education, while low-income and migrant workers face the sharpest rent-to-income constraint. IT professionals also experience significant rent pressure in areas close to employment centres.

X. Suggestions

1. Strengthen agricultural supply chains (cold storage, logistics) to reduce food-price volatility.
2. Expand targeted social protection (DBT, food subsidies) for low-income and rural households.
3. Diversify energy sources to reduce exposure to imported crude-oil shocks.
4. Improve forecasting and buffer-stock management for seasonal/weather-driven shocks.
5. Ensure close fiscal-monetary coordination during supply shocks.
6. Ease urban housing supply constraints (land-use, approvals near transit) in IT hubs like Bangalore to moderate rent inflation.

XI. Conclusion

This study traced India's inflation from the planned-economy era to the current inflation-targeting regime, finding that recent (2025-26) inflation, while within the RBI's target band, has been driven chiefly by food prices, burdening rural and low-income households most. The Bangalore case study confirms this pattern at city level: rent inflation, not broad price rises, drives cost-of-living stress, hitting students, gig workers and migrant households hardest. Moderate inflation supports growth, but sustained or volatile inflation erodes purchasing power and deepens inequality. A coordinated approach — supply-side reforms in agriculture, energy and housing, targeted social protection, and disciplined monetary policy — is needed to protect vulnerable groups. Further primary research into household-level coping strategies would extend this study.

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