

Original Article

Budgeting and Financial Management Practices in Middle-Income Households of India

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Abstract

The middle class is the foundation of India's economy, so it is essential to examine how they earn, how much they earn, how much they save, what are their expenses, how much they invest and how they manage family income. Rising expenses and limited income make it essential for middle-income households to create a budget. Saving for future goals while meeting daily needs is a stressful and challenging task for them. This research attempts to understand how these households plan their expenses. It also examines their spending habits and savings patterns. The study identifies common obstacles middle-income households face when creating a family budget. Exploring financial management practices of middle-income households by focusing on their budgeting strategies, expense management and savings pattern is the need of today.

Key Words: Middle-Income Households, Financial Management, Budget Planning, Family Expenses

Introduction

In today's competitive and dynamic economic environment, family income is crucial for financial stability. Effective financial management is necessary to meet basic needs, plan for the future, and cover unexpected expenses. Planning family income and controlling expenses are essential to achieve financial goals. Rising inflation, daily expenses, and limited income make it difficult for middle-income households to manage their finances. Daily expenses, education costs, healthcare expenses, and saving from them have become a challenge. Urbanization, changing lifestyles, and social media influence are increasing and changing the needs of middle-income households. Understanding how these households manage their finances is a necessity. This research explores their income, expenses, and struggles to save for future. It is also essential to know the challenges faced by these households in managing limited income, increasing and unexpected expenses. The study emphasizes the need for effective financial management to balance competing demands, prioritize expenses and ensure financial stability.

In the past, Indian women, although not earning, played a significant role in family financial planning. They would save and manage the money given by the earning member, often setting aside a portion of it. This saved money was secretly kept in a small purse or a box in the kitchen or wardrobe. In case of an emergency, they would use this money. Even today, earning women set aside a part of their monthly income for unexpected expenses. Some families teach their children the habit of saving from a young age, using a piggy bank to store money given by parents, grandparents, or relatives, which is later used for the child's bigger expenses.

In today's digital age, various mobile apps, online platforms, and Excel sheets are available for family financial planning. However, traditional Indian middle-class families often use old methods to create a family budget. Some families keep a separate notebook and write down their expected expenses at the beginning of each month. The role and participation of family members are crucial in family financial planning. In some families, only the earning member makes financial decisions, while in others, all members decide together. In today's modern era, young people and women are increasingly contributing to family income.

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Empowered women play a significant role in creating family budgets and making financial decisions.

Some middle-class families consider potential expenses and unexpected costs at the beginning of the financial year, including education, healthcare, and daily expenses. The financial situation becomes challenging when unexpected expenses arise, and families struggle to manage. Many middle-class families face financial problems at the end of the month. Today's youth have increasing demands and want a comfortable life, leading the earning member to work hard to fulfil their demands. Middle-class families prioritize education, while most of the families emphasizing higher education to secure better career opportunities for their children. The Middle-class acts as a bridge between the poor and the rich.

The desire to provide their children with what they didn't have driven middle-class families. Parents often give in to their children's demands, influenced by social media and peer pressure. Middle-class families struggle to balance expenses, save for the future, and keep their elders and children happy, requiring effective financial management.

India's current situation is such that the rich are getting richer, and the government is making policies only for those below the poverty line, neglecting the middle-class families. These families pay taxes honestly but don't qualify for schemes of the government due to income criteria, making it hard for them to avail financial advantages. Middle-income households typically allocate their income across various categories. The major portion of their income is spent on necessities like food, groceries, clothing, rent, education utilities. Many middle-income households face challenges like increasing essential costs, debt burden, limited financial savings, etc. The typical financial planning strategies implemented are '*kharcha diary*' to write and monitor spending. In India middle-income households often depend on traditional methods for budgeting and saving. The reason is they find it simple, practical and effective.

The common saving habits are:

1. Piggy Bank (*Chillar Box*) – To collect coins and small notes and inserting them in piggy bank.
2. Fixed Deposit in Banks- To invest money for fixed duration with a fixed interest rate preferably in nationalised banks.
3. Post Office Savings- To invest money in post office saving schemes like PPF, NSC, Recurring Deposit etc.
4. Gold Investment- To invest money in gold by purchasing gold coins, bars and ornaments.

5. Chit Funds- To invest money in Chit Funds is a popular saving method even in rural India.

The common Budgeting Methods are:

1. 50-30-20 Rule- To allocate 50% of the income for necessities, 30% of the income for discretionary spending and 20% of the income for savings.
2. Kharcha Diary- To maintain a diary/notebook to record daily expenses and to track spending.
3. Envelop System- To make separate envelopes for different categories of expenses like groceries, education, rent, entertainment etc.
4. Priority-based-budgeting- To allocate funds based on preferences like food, rent, grocery etc.
5. Cash-based budgeting- To use cash for expenses to avoid overspending.

Other Practices of Budgeting

1. Joint Family Finances- To combine income of earning members of the family and to manage expenses jointly.
2. Frugal Living- To adopt a frugal lifestyle in order to save money.
3. Avoid Debt- To avoid to take loans.
4. Investing in family- To invest in children's education or family business.

Challenges in Budgeting and Financial Management

Income Constraints:

- Limited income: Middle-class families often have limited disposable income, making it tough to save and invest.
- Salary hikes not keeping pace with inflation: Salary increases often don't match rising expenses.

Expense Pressures:

- High living costs: Rising costs of housing, education, healthcare, and food.
- Education expenses: Increasing costs of quality education.
- Medical emergencies: Unforeseen medical expenses can be financially draining.

Financial Goals:

- Saving for retirement: Balancing current needs with future goals.
- Children's education: Planning for increasing education costs.
- Buying a home: Saving for a down payment and managing EMIs.

Financial Literacy:

- Limited knowledge: Many middle-class families lack financial knowledge, leading to poor investment decisions.
- No financial planning: Not having a clear financial plan or budget.

Other Challenges:

- Social pressures: Pressure to keep up with social norms and lifestyle expectations.
- Lack of emergency funds: Not having a cushion for unexpected expenses.
- Debt burden: Managing debt from loans, credit cards, or other sources.

Review of Literature

Md. Rashik Shahriar Akash, (December, 2023) in his book chapter titled "A Comprehensive Review on Family Budget Management." have focused on the need of examining household spending and poverty management. Dr. Bharati Yadav, (February, 2020), emphasises on relation between household budgeting and well-being of individuals and families. It has suggested that if a middle class family creates an effective household budget and manage finances properly, it will lead to the financial well-being of the family. The study of Jain & Jain (2019) highlights the significance of financial literacy and budgeting practices of Middle-income households in India. Agarwal and Bhalla (2020) provide practical guide for Indian families to manage finances effectively.

Research Methodology

This study employs a descriptive research design, utilising secondary data to examine the financial management practices of middle-income households. The research relies on existing literature, government reports and online resources to gather data on the financial habits, budgeting strategies and expenses management of middle-class families.

Research Objectives

1. To examine the financial management practices of middle-income households.
2. To identify the challenges faced by middle-income households in managing their finances.
3. To provide recommendations for effective financial management strategies for middle-income households.

Limitations of the Research

The study acknowledges the limitations of using secondary data, including outdated information, inaccurate information and potential biases.

Data Collection

Secondary data is gathered from various sources such as Research papers and articles, online databases and financial websites and reference books related to personal finance and economics. By using secondary data, this research provides a comprehensive overview of the existing knowledge on financial management practices among middle-income households.

Findings, Conclusions and Suggestions

Findings

Middle-income households spent most on necessities like food, rent and utilities. They save very small portion of their income which is near about 10-20% of their income. Generally the middle-income households have burden of loans especially for housing, education and medical expenses. Most of the families stick to traditional investment options like fixed deposit in banks, PPF or gold. Even today they are unaware about the modern investment options hence there is need of financial literacy.

Conclusions

To understand a country's economic situation, it is essential to know the financial behaviour of middle-class families. The country's social and political stability also depends on the economic condition of the middle-class. To strengthen the country's economic foundation and ensure its prosperity, the government should formulate policies that support the middle class.

Suggestions

Following are key suggestions for effective budgeting and financial management practices in middle-income households.

1. Track expenses – Middle income households should monitor where their money is going to identify the areas for improvement.
2. Create a Budget – These families can allocate 50-30-20 pattern i.e. 50% for necessities, 30% for discretionary spending and 20% for saving and debt management.
3. Give priority to needs than wants- They should distinguish between essential expenses and discretionary spending.
4. Create an emergency fund- These families should build emergency fund at least for 3-4 months.
5. Invest wisely- The middle class households invest carefully and wisely to avoid risks.
6. Review budget- These families should regularly review budget and financial progress to make necessary adjustments.

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Conflicts of interest

The authors declare that there are no conflicts of interest regarding the publication of this paper

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