High inflation eats into budget and investments; here are ways to deal with it

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The pass-through of higher global commodity prices, supply constraints and rising demand would pressure retail inflation in the coming months

MUMBAI: The retail inflation for June continued to be above 6% as prices across food, fuel, among other services remained firm. The Consumer Price Index (CPI) for June was 6.26%. In the previous month, the retail inflation was at 6.3%.

"The growth in inflation (year-on-year) for the month at 6.26%, was once again over a fairly high base of 6.23% (June' 20) and points to the build-up of price pressures in the domestic economy," according to a note by CARE Ratings.

According to the agency, "the pass-through of higher global commodity prices, supply constraints and rising demand would pressure retail inflation in coming months... we expect CPI inflation to rule around 6% for the next two-three months".

When inflation rises, it erodes the value of your money. It affects your savings and investments as well as monthly expenses. If you have a fixed deposit at 5.2-5.4%, your real returns (accounting for inflation) will be negative.

In the high inflation scenario, you need to ensure that your household budget is intact, and your investments are in products that have inflation-beating returns.

Here are a few things that you can do if inflation is affecting your budget and investments.

Revisit your household budget

You will need to recalibrate the monthly budget. Look at your expenses on essentials and discretionary items. Essential items include things that you cannot cut down like food, staples, fuel, etc. Discretionary items are typically lifestyle-related expenses like shopping, travelling, etc.

Check where you can cut down. Can you do away with some subscription services? Is it possible to cut down on eating out or ordering food?

One of the ways to stick to your household budget is ensuring that it remains a percentage of your salary. For example, if you earn ₹50,000 and household expenses

Equities and gold

Historically, equity returns have been above inflation over the long term. If you already have an asset allocation among different asset classes, continue to maintain it. If your allocation to equities is on the lower side, increase it slowly. You can do so by increasing the monthly systematic investment plan (SIP) amounts in mutual funds.

Gold is generally considered a hedge against inflation. Investors can allocate 5-10% to gold in their portfolios. If you don't have gold as an investment, you can slowly add it over time by investing in either gold exchange-traded funds or gold savings schemes from mutual funds.

For debt allocation, Public Provident Fund and Employee Provident Fund continue to offer higher rates than inflation. If you are looking for other fixed income instruments, you can evaluate the Reserve Bank of India's floating rate bonds. They offer a 7.15% interest rate, which is reset twice a year. However, they have a seven-year tenure.

Another long-term option is Small Savings Scheme. You can explore National Savings Certificates (NSC) and Kisan Vikas Patra (KVP) that offer 6.8% and 6.9%, respectively.