

The Impact of Income Fluctuations on Consumer Purchasing Behavior in Sri Lanka – A Systematic Literature Review

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Abstract

Income fluctuations are common while having a significant influence on consumer behavior, financial stability and socioeconomic progress in developing countries. Despite its significance, the relationship between income fluctuations and consumer behavior in Sri Lanka is still insufficiently explored as existing studies often focus on sector-specific contexts and consists of out-dated data and inadequate analytical techniques. The originality of this work lies in its multidisciplinary approach that focuses on geographic and demographic variations and its consideration of both formal and informal income patterns while contextualizing consumer behavior around recent macroeconomic shocks such as 2022 economic crisis. The methodology used in this paper is systematic literature review using a sample of 55 publications published in the period of 2000 – 2025 in this context. The findings of the study suggest that Sri Lankan consumers show immediate responses to the income fluctuations, but the logical spending changes are moderated by cultural and Behavioral factors such as prestige consumption and community obligations. The study recommends policymakers to enhance societal safeguard measures, promoting informal income resilience and establishing financial literacy among consumers. Businesses are recommended to address the dynamics of consumer behavior immediately and offer affordable value proposition while establishing brand loyalty and trust.

Keywords: income fluctuations, consumer behavior, informal income, socioeconomic impact

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Introduction

Consumer purchasing behavior is a critical component of any economy which is impacted by numerous elements such as income levels, cultural norms, market changes and policies. These income fluctuations which can be brought by inflation, job displacements, economic shocks or government policies, have a particularly obvious and measurable impact on decisions made by customers (Mutinda, 2024). The correlation between changes in income and consumer choices is more significant in developing nations such as Sri Lanka where economic uncertainty is common and disparities in income are substantial (Pavithra & Ramaswamy, 2023). Sri Lanka has gone through several economic changes in the last two decades including post – war rehabilitation, global market integrations, high inflation and current economic crisis (Silva et al., 2020). These shifts have all made an impact on household income fluctuations and consumption trends.

Despite the fact that there is an expanding body of research on domestic income and consumption in South Asia, a comprehensive understanding of how income fluctuations, particularly in ambiguous economic settings, influence consumer purchasing behavior in Sri Lanka is lacking in the academic literature (I.I. Gangewatta et al., 2023). Furthermore, recent studies published in reputable journals emphasize the significance of complemented and behaviourally grounded analysis of consumer behavior under income stress (Mennekes & Schramm-Klein, 2025; Syed et al., 2024), yet a comprehensive review in the Sri Lankan context is yet to be developed (Gunasinghe, 2023). Additionally, there is inadequate consideration is given to elements like behavioral, psychological, and demographic aspects, which mediate this relationship (Tang, 2024). Moreover, the cross-comparison between low-income and emerging middle-income households or between rural and urban setting, is limited. These gaps have made it challenging for policymakers, business leaders and academics to clearly

understand the impact of economic and income changes on consumer behavioral patterns.

The study aims to bridge the previously noted gaps by critically synthesizing of current body of knowledge regarding how income shifts affect the purchasing decisions of Sri Lankan consumers. This paper contributes to the current body of knowledge in this context by highlighting the understudied elements such as behavioral reactions to income uncertainties, the role of informal income sources and the differing impacts across product categories (luxuries vs necessities). Additionally, this study offers foundation for future empirical research and policy – oriented research.

It is crucial for multiple stakeholders to comprehend how fluctuations in income affect consumer purchasing decision making. The paper provides insights for policymakers to create customer-oriented welfare programs, tax laws and economic recovery measures. In a dynamic economy, it helps companies in refining their pricing and market segmentation approaches. Furthermore, the study provides scholars with essential groundwork to conduct multidisciplinary research about economic and socio-psychological and psychological consumption aspects.

Research Objectives

- To analyze the impact of income deviations on consumer behavior in Sri Lanka.
- To assess the current trends, drivers and socioeconomic implications of the relationship between income and consumption.
- To examine the mediators in the relationship between income fluctuations and consumer behavior.
- To assess the role of informal income sources on consumer patterns in Sri Lanka.

Literature Review

The connection between income and consumer behavior has been deeply investigated in economic theory, especially within the frameworks of the permanent income hypothesis (PIH) (Friedman, 2018) and the frameworks of the Life-cycle hypothesis (Modigliani et al., n.d.). According to these theories, consumers level their expenditures across time and focus their purchases on both their anticipated income and their current income. However, in low and middle income countries, where social security nets are unfit and credit availability is restricted, consumption is usually more linked to current income levels (Blasco et al., 2023). This argument is supported by empirical research conducted in South Asian context including Bangladesh and India, which emphasizes that income spikes have a direct and significant impact on household spending, particularly on non – essential items (Kitukutha et al., 2021).

Trends, Drivers and Socioeconomic implications of Income and Consumption in Sri Lanka

In Sri Lanka, income diversification is an important trend that influences the well-being of the households. According to research, a varied income profile lowers poverty levels, enhances household security and lessens vulnerability to financial downturns (Senevirathna & Dharmadasa, 2021). This diversity enables families to enhance their profits and lower the risks related to market turbulence and climate uncertainty, by combining many revenue sources – agricultural, non – agricultural and remittance. Even though this diversification increases income stability, it also draws attention to disparities. For instance, rural households usually do not have the same opportunity to financial resources as those who live in urban areas. This situation results in socioeconomic inequalities in the country (Chhatre et al., 2023).

Furthermore, Sri Lankan income trends have been changed significantly as a result of growing reliance of remittance from foreign employees. The subject of labour

migration started to gain significant traction around late 1970s and since then has grown as one of the major source of income for many low – income and middle income households in Sri Lanka (Aslam & Sivarajasingham, 2020). From accounting up to 0.2% of household consumption in 1975 to 12% in 2017, Remittance has been an important form of financial support, helping numerous people overcome poverty and raising quality of life through increased access to healthcare and education (Ramanayake & Wijetunga, 2018).

Another important aspect that is influenced by the Sri Lankan income trends is health expenditures. Even with the free healthcare initiatives from the government, many households in rural areas still find it challenging to pay for medical treatments out of the pockets (Gunarathna et al., 2023). Hence, despite the rhetoric surrounding of universal healthcare, there is still disturbing reality in which accessibility and the quality of healthcare services are strongly affected by financial viability. Furthermore, the health crisis raised due to non-communicable diseases creates overwhelming pressures on the healthcare system and causes families in Sri Lanka to allocate financial resources toward medical care that diverts them from investments and savings and economic development (Abeysekara & Samaraweera, 2022).

Food security and malnutrition are also essential to understand the consumption patterns in Sri Lanka. Research illustrate that 32% of children in estate communities are displaying stunt growth, indicating that there is significant variation across socioeconomic classes (Chandrasenage et al., 2025). Furthermore the research suggests that, the frequency of stunting, especially in low – income groups, acts as an example of how economic disparities result in nutritional deficiencies, which diminish future income potential and prolonged the poverty cycle (Chandrasenage et al., 2025). Moreover, this trend of consuming fast-foods in urban areas is raising concerns about the long-term food security and health consequences as it is a part of a wider

shift towards more westernized diet, usually at the expense of local food traditions (Bandara et al., 2021).

Another element of Sri Lanka's financial discussion is taxation and how it impacts on income distribution. The nuanced correlation shows that even though larger tax burdens generates high public revenue, they can also make inequality of income even worse especially when it comes to the personal and corporate income taxes (Tharani et al., 2024). In accordance with previous research, detrimental tax policies can hinder economic expansion and put a greater pressure on low-income households, which complicate already existing imbalances particularly in rural regions (Asel et al., 2022). Additionally, wider economics conditions that include factors like inflation, depreciation of exchange rates and fiscal policies by the government have complicated the impacts of personal income fluctuations on consumer behavior. A survey by Department of Census and Statistics suggests that during and after the 2022 economic crisis even middle and upper-income communities in Sri Lanka have shown a significant shift towards conscious spending pattern and prioritization of essential goods (Department of Census and Statistics, 2023).

Through the perspective of environmental effect, it is also convincible to examine the relationship of income trends and consumption patterns. Studies suggests that Sri Lanka experiences increasing energy consumption while its economic progresses since the tourist and manufacturing sectors have experienced growing capability requirements (Murshed et al., 2020). Superficially, this expansion can be seen as a favourable condition of the expanded economic activities. However, it has created concerns about environmental sustainability, especially with regard to resource degradation and carbon gas emission (Gasimli et al., 2019).

Mediators in the relationship between Income fluctuations and Consumer behavior

The factors determining consumption decisions involve socioeconomic status and cultural views and psychological aspects that work together with income patterns to influence purchasing choices between demographic segments.

Behavioral Mediators

Behavioral mediators are critical when it comes to influencing spending habits in response to the changes in income. Based on Behavioral economics theories consumers demonstrate inconsistent rational behavior when their income changes. Research suggest that, concepts like prestige consumption, mental accounting and loss aversion profoundly impact on consumer decisions, particularly in developing nations (Islam et al., 2024). Studies demonstrate that in Sri Lanka, people frequently spend a significant amount of money on luxuries in an attempt to indicate their social standing (Karunanayake, 2020). However, this natural preference for status-based purchasing extends present economic differences since low-income people are required to exhaust their finances for perceived wealth status (Haymond, 2022).

Moreover, there is notable influence from alcohol and tobacco consumption, with research reveals that low-income people in Sri Lanka apparently spending up to 40% of their earnings on these substances (Ranaweera et al., 2018). The downside of these behavioral actions is that it further complicates the connection between income changes and purchasing patterns through diverting funds away from essential spendings on necessities like food and healthcare (Institute of Alcohol Studies, 2017).

Psychological Mediators

The psychological factors too act as major influencers between income fluctuations and consumer behavior. Research illustrates that, people usually count on

their material possessions to determine their worth, consequently it can cause psychological stress when their income declines (Zhao & Yang, 2025). As psychological stress is a common feature in low-income communities, research reveals that notions like anxiety and distress can impact on financial decision-making and consumption patterns, especially in communities facing financial challenges (Ratnasekera et al., 2024).

Additionally, research emphasizes that, food insecurity creates psychological stress that leads low-income households to choose low - priced food items containing many calories at the expense of nutritious food decisions which adversely affects their health conditions along with their future consumption patterns (Verdeau et al., 2025). In Sri Lanka, poor food choices are caused by inadequate understanding in specific demographic groups, exacerbated by financial limitations (Weerasekara et al., 2020).

Demographic Mediators

Demographic mediators such as age, gender, and education are greatly impacting the consumption patterns in response to income shifts. Research proves that, in Sri Lanka, higher levels of education lead individuals to properly understand financial decisions which leads them to put spending into more healthier choices (Weerasekara et al., 2020). In contrast, less educated people may rely more on instant consumption than on savings or investments, particularly during uncertain economic periods (Al-Nuaimi & Al-Ghamdi, 2022).

Gender dynamics also play a crucial role in this relationship. Studies have elaborated that women in low – income families in Sri Lanka often have a limited influence over household consumption decisions, which significantly effects on children’s nutritional choices and food security (Renzella et al., 2020).

Furthermore, the demographic characteristics of particular Sri Lankan regions shape how people consume products in their area. The consumer pattern in urban areas

usually leans towards modern items but rural population gives higher preference to agricultural resources (Gangewatta et al., 2023). Moreover, the variations between urban and rural consumption patterns demonstrate the influence of demographic elements, since urban residents often show an attraction to convenience food items as a result of alterations in their lifestyles (Bandara et al., 2021).

The role of Informal Income Sources in consumption behavior

In Sri Lanka, the role of informal sources of income on consumer behavior is a complicated and diverse phenomenon. Particularly, in an environment of varied income levels, informal income sources have a significant impact on the overall financial secrecy as well as how consumption decisions are taken. There is a wide range of informal income sources in Sri Lanka that include home – based businesses, small – scale farming and informal labour in sectors like domestic work and construction (World Bank, 2020). Most rural families together with families in low-income urban communities rely on these income-producing activities to survive. The financial assist made by these activities frequently acts as safety nets financial uncertainties and offer households the capability to purchase both necessities and luxury goods (Yeboah, 2024).

According to research, a significant portion of Sri Lankan economy is made up of the informal sector which many people rely on it as their main source of income. For instance, informal waste management employees who are often disregarded, are essential to urban waste management and to providing marginal communities with income (Jayasinghe et al., 2019). Additionally, a substantial amount of people work in the fields of casual labor, small-scale businesses and informal agriculture, all of which are essential to their livelihood (Caron, 2024). High job irregularity and low payment rates from these sources help families fulfil basic needs when creating overall market purchasing patterns. More than 70% of Sri Lankan households are

considered to rely on several unofficial sources of income in order to maintain financial security (Pallegedara, 2019).

Furthermore, microcredit services have a crucial role in allowing low-income households to involve in informal economic activities, which enables to moderate consumption during periods of income shocks (Karunaratna & Dissanayake, 2024). During the time of economic difficulties, households usually use these microloans to stabilize their financial position by paying for immediate necessities. Access to informal financing methods through these households enables them to sustain their consumption levels even though their income is inconsistent (Petro Manja et al., 2022).

While these informal income sources provide significant assistance to financial stabilities, it may also have some drawbacks. Informal employees without proper job securities experience severe risks throughout economic downturns when they encounter job termination and reduced work hours because of the absence of formal employment agreements (Wickramasinghe & Fernando, 2017). Moreover, people who have limited resources, poverty is become worse by informal income, which is usually linked to restricted access to social security benefits. Households who depend on informal income sources frequently experience high financial stress as their capacity to obtain stable financial support depends on unpredictable job opportunities (Samuel Asuamah Yeboah, 2024).

Methodology

The methodology of this study is systematic literature review that uses a sample of 55 most pertinent publications published from 2000 - 2025 in the context of the relationship between variations of income and consumer behavior among the households in Sri Lanka. The sample of publications are critically appraised and synthesized quantitative findings. The systematic approach guarantees

accurate literature coverage meeting with rigorous guidelines and reduction of bias.

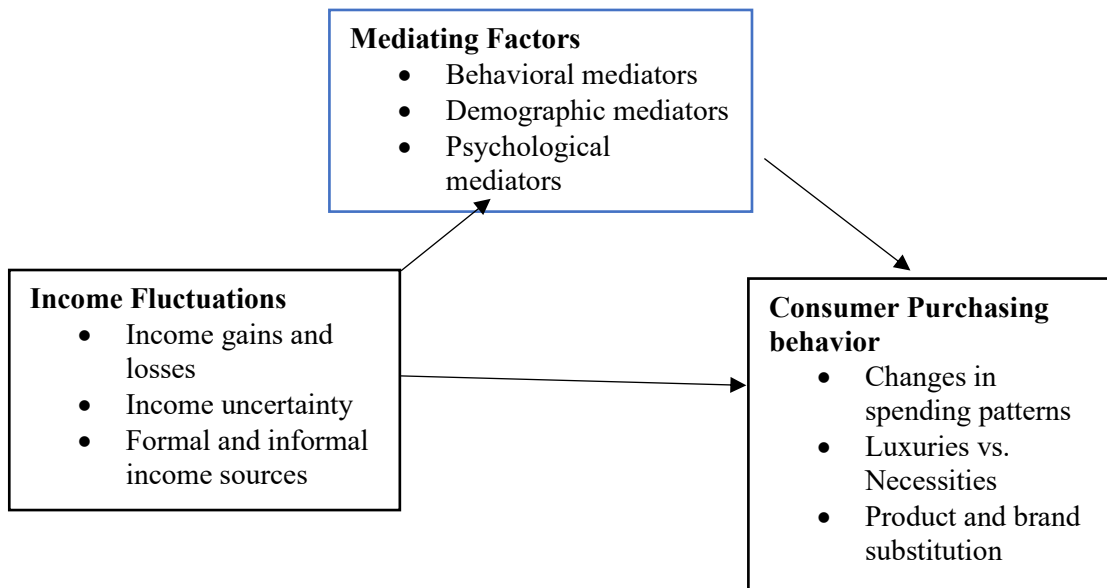


Figure 1: Conceptual Framework

Database Search

Comprehensive and systematic searches have been conducted using scholarly databases such as EBSCOhost, Web of Science, Google Scholar, and Scopus. Keywords including "income fluctuations," "household spending," "income volatility," "consumption patterns," "consumer purchasing behavior," "Sri Lanka," and similar terms are used.

Inclusion Criteria

- Studies that highlight the relationship between income volatilities and consumption patterns.
- Peer-reviewed journal articles (Empirical studies, review papers and concept papers)

Exclusion Criteria

- Studies that focus solely on poverty metrics, income disparities without a consumption lens.
- Invalid macroeconomic modeling that does not take consumer behavior into consideration.

Research Design

This research paper used qualitative and integrative literature review design aimed to synthesize of results in various fields (economics, Behavioral science, and consumer studies) to establish the impacts caused by fluctuation of income on consumer purchase behavior in Sri Lanka.

Population and Unit of Analysis

The population for this study refers to the body scholarly literature relevant to the review topic. The unit of analysis includes peer-reviewed journal articles and reports which are of high quality and discussing the changes in income and consumer behavior, mainly in developing countries, with emphasis on Sri Lanka.

Sampling Technique

Adhering to best practices of narrative reviews, a purposive sampling approach was used in which papers were selected on the basis of theoretical contribution, methodological rigor, geographical focus and relevance.

Variables and Operational Definitions

Variable	Conceptual Definition	Type	Sample Reference
Income Fluctuations	Variation in household or personal income over time, short run shocks, long run trends and instability of incomes due to formal and informal sources	Independent	(Crawley & Theloudis, 2024), (Crawley & Theloudis, 2024).
Consumer Purchasing behavior	Significant shifts in consumer spending habits, including brand switching, consumption levelling techniques, spending on essentials vs. luxuries and changes in product groups.	Dependent	(Neha et al., 2024), (Mennekes & Schramm-Klein, 2025)
Behavioral mediators	The patterns of habits, routines, and means of decision making that affect how the individuals react to changes in their income including spending discipline, saving behavior or brand loyalty.	Mediating	(Rodriguez et al., 2024), (Haymond, 2022)
Psychological mediators	Cognitive or emotional aspects (perception of risks, financial insecurity, future bliss, or materialism) of the transformation of income changes on consumption.	Mediating	(Zhao & Yang, 2025), (Dirwan, 2023)
Demographic mediators	Individual characteristics such as age, gender, household status and employment status that impact people to adjust their	Mediating	(Indiani et al., 2024), (Dr. Mona Bhalla, 2024)

consumption with response
to their income

Table 1: Variable and operational Definitions

Results and Discussion

The systematic literature review highlights key findings from previous research on the relationship between income dynamics and consumption patterns. Urban families in Sri Lanka with strong financial position, tend to spend more on fast and non-nutritious foods leading to undermined the food security and cause adverse health conditions (Pallegedara, 2019). Furthermore, the significant amount of expenses on alcohol and smoking by low-income households poses concerns about how effective the current social policies are at eliminating poverty (Alcohol and Drug Information Centre, 2021).

Furthermore, shifts in income levels have significant effects on Sri Lankan households, particularly low-income groups. They reduce the purchasing of non-essential items when their income decreases but maintain essential needs by purchasing lower-priced alternatives. And these findings support the results of the survey done by Department of Census and Statistics in Sri Lanka regarding household income and expenditures (Department of Census and Statistics, 2019).

Additionally, the income stability of rural customers remains unpredictable as they engage more in agricultural and informal job markets, and both influence their income levels (Guo, 2024). The consumption patterns for rural households are more likely to involve using home production and informal credit systems while urban communities lie on formal wage interests. Moreover, the findings from previous research indicate that the 2022 economic crisis forced both middle-class and upper-class households to minimize their

expenses while directing their spending towards basic necessities (Department of Census and Statistics, 2023).

Factors that mediate this relationship are categorized mainly into three categories as Behavioral, psychological and demographic mediators. According to Behavioral insights, it is visible that Sri Lankan consumers may choose to spend more on social noticeable items to emphasize their social standards. Moreover, findings suggest that women in Sri Lanka are prioritizing the basic necessities and the needs of children while men focus on non-essential items. Additionally, research have revealed that women and younger generation are more likely to utilize sustainable products when they make purchase decisions as these demographic categories are more aware of environmental concerns (Thilinika & Gunawardana, 2021).

Moreover, the complexity of Sri Lankan economy, where many households rely on unsteady, informal earnings to make their living, is reflected in the preponderance of the informal sector. (Rathnayakage, H.R.I.M & Samaraweera, 2024). Furthermore, remittance transferred from abroad act as a vital financial security measure for Sri Lankan families which secures both economic security for their households while using the money to provide education and healthcare for their children (Jayarathna, 2024). Additionally, utilization of microcredit facilities acts as a two-edged sword. It provides financial assistance for households who require immediate support, but it also carries the danger of over-reliance and future debts, which could make financial challenges even worse (Ofori Emmanuel, 2022).

Convergence with Prior Research

- The discussion confirms the widespread agreement in the existing literature that illustrates lower income consumers' personal spending is adversely affected by income instability (Chhatre et al., 2023), which the findings of this study also firmly support.

- The results of behavioral economics clearly show that due to oncome shocks, consumers do not follow strictly rational economic models (Islam et al., 2024). This situation is verified in this review demonstrating that Sri Lankan consumers often maintain status-driven spending in the face of income losses (Karunanayake, 2020).

Divergence from existing research

- This study addresses a significant gap in the Sri Lankan literature relative to global research in the application of knowledge on psychological, Behavioral and demographic aspects behind consumption. For instance (Karunanayake, 2020), (Ratnasekera et al., 2024), emphasize psychological and Behavioral factors, few local studies adopt a demographic and sociology lens as seen in the global literature.
- Informal income is highly discussed in global literature as a stabilizer (Brollo et al., 2024), but in the studies of Sri Lanka, this variable is not profoundly considered. However this review differs with this observation by noting that it is pivotal to consumption smoothing practices such as microcredit, especially in rural and post-crisis settings (Karunaratna & Dissanayake, 2024).

Conclusion and Recommendations

This literature review critically examines the impact of income fluctuations on purchasing behavior in Sri Lanka, synthesizing findings from economic, marketing and Behavioral science. According to the analysis, there are noticeable variations in Sri Lankan consumers' sensitivity to the fluctuations in income across different levels of income, geographical areas and consuming sectors. Cultural and societal forces usually promote extending spending on status – related things even during the times of financial difficulty, yet low-income and middle-income households prioritize

essentials during economic downturns. Furthermore, the study identifies three main variables namely, psychological, demographic and behavioural, which mediate the relationship between income fluctuations and consumption patterns.

Implications

Based on the results, policymakers are recommended to implement supportive programs that place high priority on consistent income, especially for necessities. Furthermore, encourage financial literacy by educating individuals how to manage their income and expenses in uncertain periods, saving and creating a budget plan.

Furthermore, businesses are provided with implications to offer reasonably priced goods with desirable qualities to satisfy dynamic needs of customers in lower income markets. Moreover, they need to create responsive goods and marketing plans that take cultural and geographical variations in consumption into consideration.

Moreover, future researchers need to conduct future research on behavioral economics, psychology, and sociology to understand how non-scientific factors influence spending alterations when income changes. Also, studies on post-crisis consumer behavior, using panel statistics, continuous observation, and qualitative assessment approaches to track temporal consumption modifications are acknowledged.

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