Panam

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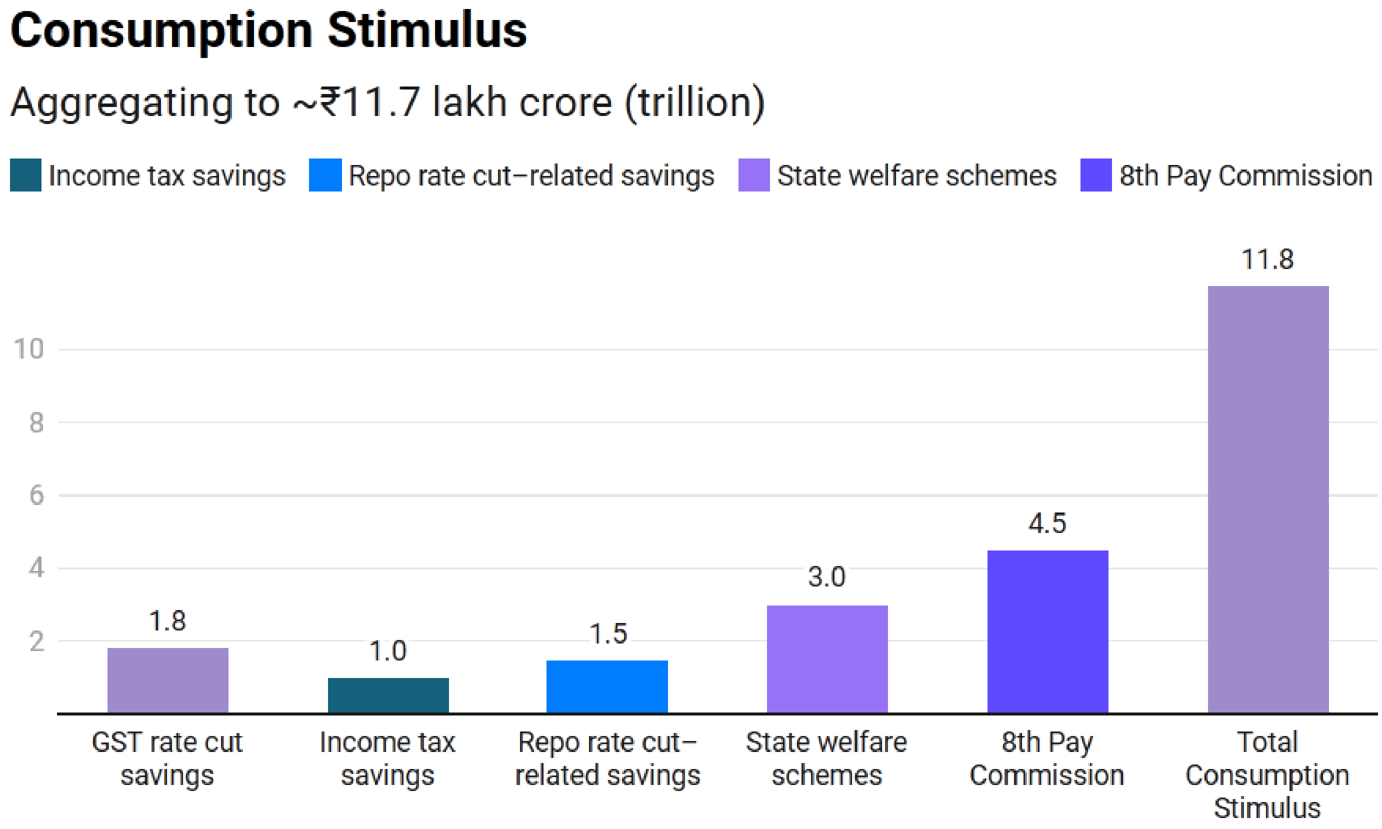
India's growth trajectory remains resilient at an aggregate level, but the composition of growth continues to shift. Consumption, which contributes close to 60% of GDP, is gradually stabilizing after a prolonged period of pressure, while investment activity—accounting for roughly 32% of GDP—has begun to slow more visibly. This divergence between demand support and investment momentum is increasingly shaping earnings visibility and sector leadership within equity markets.

Urban consumption remains the weaker link. Slower salary growth, elevated household leverage, and subdued consumer sentiment continue to constrain discretionary spending in urban centers. A key contributor has been the ongoing slowdown in the IT sector, which accounts for a significant share of the listed corporate wage bill. With global technology spending still cautious, white-collar income growth has softened, delaying recovery in categories such as premium automobiles, consumer durables, travel, and lifestyle retail. As a result, urban consumption recovery remains uneven and confidence-dependent.

In contrast, rural consumption trends are materially better. Nominal rural wage growth has improved to around 7%, while real wage growth has risen to approximately 5%, the highest level seen in several years. This improvement is supported by moderating inflation, an above-average monsoon, and improved farm income visibility. Lower demand for employment under rural support schemes also suggests improving labor market conditions. These factors are translating into steadier demand for staples and early signs of discretionary recovery in entry-level automobiles, two-wheelers, and value-oriented retail segments.

With investment indicators weakening and consumption recovery still fragile, the policy response has clearly pivoted toward **supporting household demand rather than accelerating capex**. Faced with slowing central and state government capital expenditure, muted private investment intent, and moderating household capex, the government has chosen to bolster consumption through a broad set of income- and liquidity-enhancing measures aimed at stabilizing growth and sentiment.

The cumulative consumption-oriented stimulus now aggregates to approximately **₹11.7 lakh crore**, representing one of the most significant direct supports to household purchasing power in recent years. This includes **₹1.8 lakh crore from GST rate-related savings**, **₹1.0 lakh crore from personal income-tax savings**, and **₹1.45 lakh crore arising from lower interest costs linked to policy rate cuts**. In addition, **state-level welfare schemes contribute around ₹3.0 lakh crore**, while the proposed **8th Pay Commission revision adds nearly ₹4.5 lakh crore**, making it the single largest component of incremental disposable income.



In macro terms, this stimulus is equivalent to roughly **3.5 – 4.0% of GDP**, underscoring the scale of policy intent to protect consumption during a phase of slowing investment. Importantly, this support is broad-based, spanning tax relief, lower borrowing costs, direct transfers, and public-sector wage revisions. However, the transmission to actual spending is likely to be gradual rather than immediate. Elevated household leverage, particularly in urban segments, suggests that a portion of these gains may initially be used for debt repayment and balance-sheet repair, implying a stabilizing rather than explosive impact on consumption.

Monetary policy has reinforced this consumption-focused strategy. The **Reserve Bank of India** has shifted decisively toward an accommodative stance, delivering **cumulative policy rate cuts of 100 basis points** and signaling a clear bias toward supporting growth. These rate reductions have lowered borrowing costs across housing loans, auto loans, MSME credit, and working capital facilities, translating into an estimated **₹1.45 lakh crore of interest savings for households and businesses**, directly supporting disposable income and cash flows.

In addition to rate cuts, the RBI has implemented a **100 basis point reduction in the Cash Reserve Ratio (CRR)**, injecting durable liquidity into the banking system. This measure alone is estimated to release liquidity equivalent to roughly **0.7% of GDP**, easing funding conditions for banks and improving credit transmission. As a result, systemic liquidity has shifted into comfortable surplus, keeping money-market rates anchored and ensuring smoother transmission of policy easing into lending rates.

Sources	Link
Consumption ~60% of GDP and demand-led growth	https://data.worldbank.org/indicator/NE.CON.TOTL.ZS?locations=IN
Investment ~32% of GDP and GFCF trends	https://www.pib.gov.in/PressReleasePage.aspx?PRID=2010223
Slowdown in govt capex and fiscal constraints	https://www.indiabudget.gov.in
Confirms repo cuts, accommodative stance, policy intent	https://www.rbi.org.in/Scripts/MonetaryPolicy.aspx
Supports liquidity infusion and easier financial conditions	https://www.rbi.org.in/Scripts/NotificationUser.aspx

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