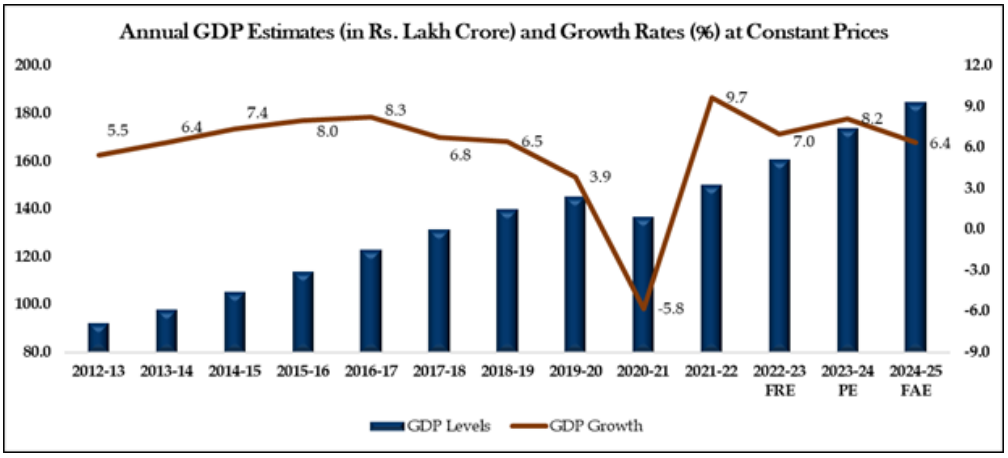
India Economic Slowdown

Why in News?

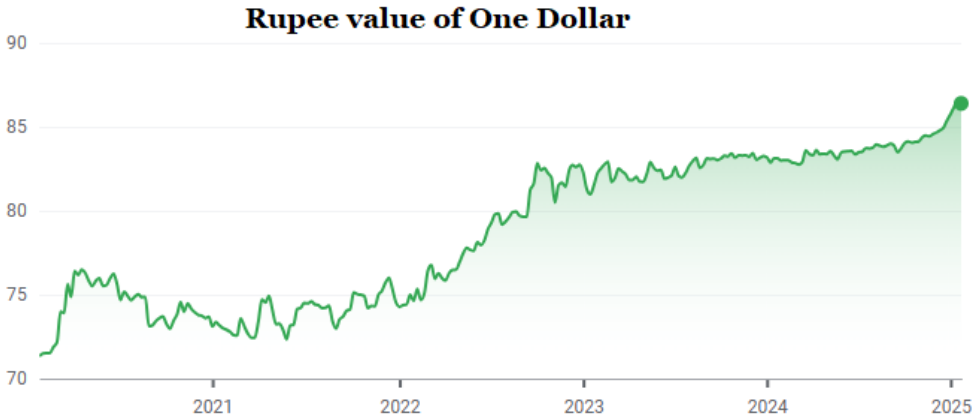
Recently Indian economy has been facing slowdown across major sectors.

What is the recent and projected economic slowdown?

- **Most populous country** – In 2023, India overtook China in becoming the most populous country with 1.42 billion population, as per UN projection.
- **5th largest economy** - India displaced Britain in 2022 as the world's fifth-biggest economy, and by next year it is expected to push aside Germany in fourth spot.
- **GDP growth** – FY 2023-24 is estimated to had a GDP growth of 8.4%, as per NSO Provisional Estimate (PE).



- **Sensex decline** - Benchmark BSE Sensex plunged over 1,000 points recently with investors losing over Rs 12 lakh crore.
- **Rupee depreciation** – The Rupee had hit its historic low of 86.70 against the US dollar in November 2024.



- **GDP fall** - According to the National Statistical Office (NSO), India's real GDP growth for FY 2024-25 is expected to slow to 6.4 %.
- **Investment outflow** - Net foreign direct investment (FDI) inflows to India fell to a 12-year low in the April to October period of this financial year.

What are the reasons for the slowdown?

- **Demonetization** – The withdrawal of 1000 and 500 rupee denominations from circulation in 2016 had disturbed the unorganized economic sectors.
- **Investment outflow** - Foreign investment has taken the call that the Indian stock market is overvalued.

  Number of Indians holding investment accounts went from 22 million to 150 million, in the last decade.

- **Inadequate job creation** - Between 2019-20 and 2022-23, an average of 26 million jobs were added annually due to an increase in agricultural and services jobs.
- **Inadequate wages** - The national minimum wage in the informal economy is just $2 a day.
- **Inadequate demand** – Unemployment and low wages affects the creation of demand for goods and services.
- **Economic inequality** - The top 10% of the Indian population holds 77% of the total national wealth and 73% of the wealth generated in went to the richest 1%.
- 670 million Indians who comprise the poorest half of the population saw only a 1% increase in their wealth, as per Oxfam report.
- **Uncertain global environment** - A strong dollar and suspense over the possibility of sudden policy moves in the United States and China affects the domestic economy.
- **Global head winds** – Conservative government formation in the United States of America and the impending tariff wars.

What lies ahead?

- The government is expected to release a budget for the new fiscal year with tax cuts and putting more money in the hands of consumers.
- Increase in wages over the inflation is essential to drive the savings, demand and investment.
- Expand the credit availability and provide credit at low cost to drive investment.

References

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