

Driving the growth engine

Broad-based reforms will sustain growth momentum

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In 2025, India found itself in a rare Goldilocks phase with moderate and resilient growth, subdued inflation, setting the stage for strong macroeconomic growth. This came at a time when the global economy remains volatile due to geopolitical developments and tariff impacts and India stands out on the back of stable macroeconomic fundamentals. RBI's cumulative 125 basis points repo rate cut in 2025 has provided timely monetary support while inflation remains benign.

The growth momentum got reflected in better-than-expected Q2FY26 GDP growth of 8.2 per cent, has been both cyclical and structural. On the consumption side, along with the much-anticipated revival of urban consumption, there has been a strong rural demand driven by good monsoons and the government's fiscal incentives. Manufacturing output growth of 9.1 per cent in Q2 FY26, up from 7.7 per cent in the previous quarter underlines the fact that the growth is resilient and broad-based.

The Production Linked Incentive (PLI) programme has emerged as a game changer in the country's manufacturing resurgence. Going forward, the scale of the skill development programmes needs to be expanded.

On the other hand, government capital expenditure continues to do the heavy lifting. Private capital expenditure is gradually making its presence felt. As of March 2025, the outstanding size of India's corporate bond market stood at approximately \$642 billion, which shows improving corporate confidence and balance sheet strength.

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India finds itself in a strong growth trajectory thanks to the scale of reforms undertaken — GST rate rationalisation, income tax rationalisation, policy easing and liquidity infusion by RBI, streamlining of labour codes and Sustainable Harnessing and Advancement of Nuclear Energy for Transforming India Bill (SHANTI), 2025.

The Insolvency and Bankruptcy Code (IBC) remains one of key structural reforms, paving the way for ease of doing business, a structured credit ecosystem and better investment attractiveness.

In addition, GST collections remain robust with year-to-date



GROWTH. Need for sustained push GETTY IMAGES

gross collections grew 9 per cent YoY to ₹21.3 lakh crore as of November 30, 2025.

Participation from young generations, women, and households, especially in tier-2 and 3 cities has diversified India's investor base and reduced dependence on foreign flows.

However, foreign investors cannot be entirely sidelined. Regulatory initiatives such as SEBI's launch of the 'India Market Access' platform will increase capital market participation for global investors.

Yet, challenges remain. Foreign portfolio investors have shown caution, reflected in net outflows from Indian equity and debt markets of around \$10.4 billion during 2025 (January-December 15, 2025). The consistent FII selling exerted pressure on the Indian rupee. However, going forward, earnings visibility and valuation discipline will be critical in restoring foreign investor confidence.

Interestingly, India's valuation premium to emerging markets has narrowed from nearly 100 per cent to about 50 per cent, offering a worthwhile entry point.

Looking ahead, in 2026, the economy will transition from intent to outcomes. Policy easing, regulatory clarity and opening of FDI in insurance and nuclear energy are setting the stage for sustained growth. For long-term investors, India's domestic demand story remains compelling. Financialisation of savings and the capital expenditure in electronics manufacturing services, defence, etc. will define the next investment cycle. India is poised to convert its structural advantages into a global edge. In an uncertain world, these broad-based reforms will position the country to emerge as the world's key growth engine in 2026 and beyond.

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