Indian Markets Over the Last Year: An Analytical Report

Executive Summary

The Indian financial markets demonstrated remarkable resilience and growth over the past year, navigating a complex global economic environment marked by geopolitical tensions, inflationary pressures, and monetary policy adjustments. The Indian stock market delivered robust returns, with the BSE Sensex and NSE Nifty 50 indices reaching record highs in 2024, supported primarily by domestic institutional investors and policy continuity following the general elections. Small and mid-cap stocks outperformed large caps, reflecting a broad-based market rally. The Reserve Bank of India (RBI) maintained a cautious monetary policy stance, keeping the repo rate steady at 6.5% for much of the year before shifting from a 'withdrawal of accommodation' to a 'neutral' stance in October 2024, accompanied by a reduction in the cash reserve ratio (CRR). Sector-wise, manufacturing, services, and agriculture contributed positively to GDP growth, with the services sector accounting for over half of the gross value added. The government's focus on infrastructure, digitalization, and sustainable finance, alongside rising foreign direct investment (FDI) and a buoyant initial public offering (IPO) market, underpinned economic momentum. Challenges remain in terms of inflation volatility, global trade uncertainties, and productivity gaps in micro, small, and medium enterprises (MSMEs). Overall, India's markets and economy are poised for sustained growth, supported by structural reforms and a favorable demographic dividend[1][2][3][4][5][6][7].

1. Indian Stock Market Performance in 2024

1.1 Market Indices and Returns

The Indian stock market experienced a rollercoaster year in 2024, with the BSE Sensex reaching an all-time high of 85,978 points on September 27, 2024, and the NSE Nifty 50 peaking at 26,277 points the same day. Despite some sharp corrections in the final quarter, the Sensex and Nifty 50 closed the year with gains of approximately 8.2% and 8.8%, respectively. Mid-cap and small-cap indices outperformed, with the Nifty Midcap 150 and Nifty Smallcap 250 indices delivering returns of 23.8% and 26.4%, respectively[1][3].

1.2 Sectoral Performance

Sector-wise, real estate, information technology (IT), automobile, and pharmaceutical sectors delivered strong returns, while fast-moving consumer goods (FMCG) and oil & gas sectors faced challenges. Notably, the Nifty India Defence index surged by 66.8%, healthcare gained 40.2%, and realty rose 40.1%. The manufacturing and construction sectors also showed robust growth, supported by government infrastructure spending[1][3][5].

1.3 IPO Market and Foreign Investment

India’s IPO market witnessed a resurgence, with over 300 IPOs raising approximately ■1.8 lakh crore in 2024, surpassing previous records. About 69% of mainboard IPOs traded at premiums, indicating strong investor appetite. Foreign portfolio investments (FPIs) remained significant, although there was some net selling in the latter part of the year. Domestic institutional investors and retail participation via systematic investment plans (SIPs) played a critical role in supporting the market[1][3][4].

2. Macroeconomic and Monetary Policy Environment

2.1 GDP Growth and Sectoral Contributions

India’s real GDP grew by 8.2% in the financial year 2023-24, with manufacturing rebounding strongly (+9.9%) and services expanding by 7.9%. Agriculture and allied sectors grew moderately at 3.8%. The services sector accounted for approximately 54.9% of gross value added (GVA), industry 27.1%, and agriculture 17.9% in 2024-25. The government’s capital expenditure increased by 28.2% year-on-year, supporting infrastructure and construction growth[2][5][6].

2.2 Inflation and Monetary Policy

Headline inflation moderated to 5.4% in FY24, aided by monetary tightening and supply-side measures. The RBI’s Monetary Policy Committee (MPC) maintained the repo rate at 6.5% through 2023 and most of 2024, shifting its stance from 'withdrawal of accommodation' to 'neutral' in October 2024. Subsequently, the CRR was reduced to 4% in two tranches in December 2024 to ease liquidity. The MPC emphasized disinflation while supporting growth, with inflation projected to decline to 4.5% in FY25[2][4][5].

2.3 Regulatory and Supervisory Developments

The RBI strengthened risk management and operational resilience frameworks, enhanced fraud risk governance, and introduced guidelines for credit model risk management. Regulatory measures targeted consumer credit and bank credit to non-banking financial companies (NBFCs) to mitigate systemic risks. The Reserve Bank also facilitated digital payments expansion and improved financial inclusion through initiatives such as the Payments Infrastructure Development Fund (PIDF)[2][4].

3. Sector-Wise Growth Trends

3.1 Agriculture and Allied Sectors

Agriculture and allied sectors contributed 17.9% to GVA in 2024-25, growing steadily despite erratic monsoon patterns. Allied activities such as livestock and fisheries are emerging as robust growth centers, improving farm incomes. Government schemes have supported agricultural research and productivity enhancements[5][6].

3.2 Industry and Manufacturing

The industry sector accounted for 27.1% of GVA, with manufacturing contributing 13.9%. Manufacturing growth was driven by government initiatives like the Production Linked Incentive (PLI) schemes and infrastructure development. Construction activities grew by 9.9%, supported by increased government spending and real estate demand[2][5][6][7].

3.3 Services Sector

The services sector remains the largest contributor to the economy, at nearly 55% of GVA. Key drivers include trade, financial services, real estate, and professional services. The sector expanded by 9.3% in the first quarter of fiscal 2025-26, with robust momentum in retail trade, IT services, and public administration[5][6][7].

3.4 Micro, Small, and Medium Enterprises (MSMEs)

MSMEs contribute nearly 30% of GDP and 45% of exports, providing livelihoods to over 240 million people. Despite their importance, MSMEs face challenges including limited access to long-term finance, intense competition, and uneven technology adoption. Productivity gaps relative to global peers persist, but digital readiness and government initiatives like the Udyam registration portal are fostering formalization and growth. State-level disparities in MSME performance highlight the need for targeted infrastructure and policy support[6][7].

4. Impact of RBI Policies on Indian Markets

4.1 Monetary Policy and Market Reaction

The RBI’s monetary policy, particularly the repo rate decisions, significantly influenced market sentiment. The repo rate was held steady at 6.5% for much of 2023 and 2024, with a shift to a neutral stance in late 2024. This cautious approach balanced inflation control with growth support. Market reactions to policy announcements were generally positive, with indices rising following the October 2023 policy statement. The RBI’s liquidity management, including CRR reductions and open market operations, helped maintain financial stability[2][4][5].

4.2 Regulatory Measures and Financial Sector Stability

RBI’s regulatory interventions strengthened banking sector resilience, including enhanced fraud risk management and operational resilience frameworks. Adjustments to risk weights on microfinance and NBFC loans, alongside deferred regulatory tightening, improved credit availability. These measures, combined with steady credit growth and improved asset quality, supported market confidence and economic expansion[2][4][7].

4.3 Foreign Exchange and Supply Chain Finance

RBI’s foreign exchange policies facilitated currency stability and efficient international trade, benefiting SMEs engaged in global supply chains. Policies such as the Liberalised Remittance Scheme (LRS), export-import guidelines, and foreign currency accounts helped SMEs manage currency risk and access supply chain finance products. Digital platforms and hedging instruments under RBI regulations enhanced operational efficiency and compliance[7].

5. Outlook and Future Prospects

India’s economic and market outlook remains positive, supported by strong domestic demand, ongoing structural reforms, and a favorable demographic profile. GDP growth is projected between 6.5% and 7% in FY25, with inflation expected to moderate further. The government’s focus on infrastructure, digitalization, and sustainable finance, alongside expanding FDI and a vibrant IPO market, will continue to drive growth. Challenges such as global trade uncertainties, inflation volatility, and MSME productivity gaps require ongoing policy attention. The RBI’s balanced monetary policy and regulatory framework are expected to sustain financial stability and market confidence[1][2][3][5][6][7].

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