Our Views

Critical Elements Shaping the New Growth Curve of Capital Markets

Last week, FICCI hosted a day-long Capital Markets Conference. There was a uniform view that our markets are entering their next phase of growth. The key question was: what are the elements that will shape this new growth curve? In this article, I will discuss some of the pillars that will drive this next phase.

Over the past three decades, India's stock markets have emerged as some of the most liquid, dynamic, and significant in the world. As of the end of 2024, our market capitalization had crossed ~$5.1 trillion. The last few years have seen a dramatic transformation. Since 2019, the number of demat accounts has surged from 40 million to over 150 million by mid-2024, a nearly fourfold increase. Retail participation has been further strengthened by the rise of SIPs (Systematic Investment Plans) and the rapid expansion of the mutual fund industry, now reaching smaller cities and towns.

Over the next 5–7 years, markets are expected to double in size. This will be driven by overall economic growth and the formalisation of the economy, which is expected to channel $7-12 trillion of savings into the financial sector over the next decade. A significant portion of this will flow into our well-established capital markets. To channel this growth constructively, I believe we need to focus on a few critical areas.

1. **Deepening the Secondary Equity Market with Diverse Products**

   Over the years, India's equity markets have matured considerably. To absorb the growing flows into the market, we must expand the product suite. This includes ETFs, index funds, REITs, and InvITs which will create stronger, more inclusive investment landscape.

   ETFs and Index Funds: Assets under management (AUM) in ETFs have risen more than fivefold since 2020. Yet, ETF penetration in India remains significantly below global benchmarks. These low-cost, passive products can deepen participation and broaden access. Further diversification into asset classes such as gold, silver, commodities, and other financial instruments will add resilience.

   REITs and InvITs: The combined AUM of InvITs and REITs has surged to nearly $100 billion in FY 2025, more than doubling in just five years. InvITs account for roughly 75% of this pool. Globally, REITs and InvITs manage over $2 trillion in assets. In India, however, REITs cover only about 10% of total listed real estate value-compared to more than 90% in developed markets like the US and UK. This gap signals enormous growth potential.

   REITs and InvITs are evolving into mainstream financing platforms for infrastructure and real estate. Their scope is expanding beyond traditional office and road assets into warehouses, hotels, hospitals, telecom towers, renewable energy, and digital infrastructure. With policy support, such as Small & Medium REITs, higher mutual fund participation limits, and equity-like classifications, the sector can achieve broader investor access and liquidity.

   Given India's infrastructure funding needs, developing these platforms further is not just an opportunity but an imperative.

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2. **Stablecoins: The Next Wave of Fintech Innovation**

   The GENIUS Act in the US has given stablecoins global legitimacy by mandating 1:1 backing with liquid assets, ensuring transparency and AML safeguards, and prioritizing holders in bankruptcy. This bold move pushes stablecoins from the crypto fringe into mainstream finance.

   India's fintech ecosystem, built on a robust digital public infrastructure (Aadhaar, UPI, Account Aggregator, IMPS, NEFT, RTGS), can adopt a similar framework. By regulating permissible issuers, enforcing full reserve backing, and mandating regular audits and disclosures, India can create a safe, scalable, and regulated stablecoin environment alongside its Digital Rupee initiative.

   In parallel, enabling the trading of traditionally illiquid assets on digital platforms can unlock productivity and broaden financial participation.

3. **A Unified Regulatory Coordination Framework for Faster Decision-Making**

   Currently, regulatory coordination in the financial sector is overseen by the Financial Stability and Development Council (FSDC), which includes the RBI and SEBI but misses the crucial oversight of the Ministry of Corporate Affairs (MCA). Given the MCA's critical role in corporate governance, moving towards a more unified forum that includes the MCA alongside RBI and SEBI could help create a comprehensive oversight mechanism covering corporate law, banking supervision, and capital markets. Such an arrangement may help reduce regulatory gaps and overlaps, improve inter-agency coordination, enable more timely responses to emerging risks, and enhance oversight in areas like fintech, corporate governance, and risk disclosure. This integrated coordination framework could further support ongoing reforms and help India's financial ecosystem adapt to rapid market developments.

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