Our Views

2025 emerged as one of the most eventful years in recent history

My final article of the previous year was published on December 28, 2024, titled “15 IPO listings in 21 days made this December the busiest in capital markets.” Few could have anticipated then that 2025 would unfold as one of the most consequential years from a capital markets perspective. There was scarcely a dull moment throughout the year. It proved to be a period of profound transformation in global politics, trade, and economics, leaving a lasting imprint on nations and financial markets alike.

The year began with swift and decisive action. In January 2025, President Trump commenced his second term with an assertive America First agenda. The immediate post inauguration phase was marked by an aggressive policy thrust, with 26 executive orders signed on the first day itself. These focused on advancing core campaign priorities, including tightening immigration enforcement, and restructuring federal workforce governance.

February delivered a significant boost to middle class consumption in India through substantial tax relief, with the personal income tax exemption threshold raised to ₹12 lakh. The Union Budget for FY25–26 was designed to accelerate economic growth, stimulate domestic demand, strengthen self-reliance under the Atmanirbhar Bharat framework, and ease the tax burden, while maintaining a disciplined path of fiscal consolidation.

March and April witnessed an unexpected and far-reaching policy announcement from the United States, termed Liberation Day. During this period, US tariffs and the trade discussion escalated sharply as the administration intensified its protectionist stance. Tariffs on steel and aluminum imports were raised, earlier exemptions were withdrawn, in addition, a new reciprocal tariff regime was introduced, including a 26 percent ad valorem tariff on Indian imports. These measures significantly heightened global trade tensions, triggered retaliatory responses from major trading partners, increased costs for manufacturers and consumers, disrupted global supply chains, and firmly established tariffs as a central tool of US economic policy.

Amid these global trade dynamics, April saw a rollercoaster ride for foreign institutional investors (FIIs) in Indian equity markets. April 2025 marked a temporary turnaround, with net FII inflows of ₹4,223 crore following sustained outflows during the first quarter. This was supported by stabilizing global markets, easing recession fears, and attractive Indian equity valuations. However, the latter half of the year witnessed renewed selling pressure driven by global macroeconomic concerns, trade tensions, and geopolitical risks.

Overall, 2025 reflected highly oscillating FII sentiment, with net outflows of approximately ₹1.6 lakh crore until December 24. The year saw an initial defensive stance, a mid-year opportunistic phase, and renewed caution in the second half, highlighting the continued influence of global factors on foreign capital flows. Domestic investors, meanwhile, played a crucial stabilizing role.

May brought an unfortunate development that led to Operation Sindoor, signalling a strategic shift in India’s counter terrorism approach. Although brief, the operation had a meaningful strategic impact and shaped both the national security discourse and diplomatic engagements throughout the month.

In the aftermath of shifting trade and tariff dynamics, several countries moved towards strengthening bilateral trade arrangements. In July, India and the United Kingdom signed the Comprehensive Economic and Trade Agreement, a landmark pact that eliminated tariffs on most Indian exports to the UK, while India committed to progressively reducing duties on approximately 90 percent of UK imports. The agreement aimed to enhance market access, support employment and investment, deepen economic ties, and enable Indian businesses to diversify globally, with the potential to double bilateral trade by 2030.

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Although US tariffs were announced earlier in April, their impact on Indian exports became evident in August. A 25 percent duty was imposed on August 7, followed by an additional 25 percent penalty on August 27, effectively raising tariffs to 50 percent on several categories of goods. Nearly 66 percent of India's exports to the US were affected. This prompted India to intensify trade negotiations, diversify export destinations, and accelerate new trade agreements, forcing businesses and policymakers to reassess trade strategies in an increasingly protectionist global environment.

September 2025 marked one of the most significant overhauls of India's Goods and Services Tax regime (GST) since its introduction in 2017. The reforms focused on simplifying the indirect tax structure and improving compliance. Key measures included rationalization of GST rates, reduction in the number of tax slabs, and streamlining of input tax credit processes. These changes were particularly beneficial for MSMEs and consumer facing sectors, lowering compliance costs and encouraging greater formalization.

In October 2025, India's retail inflation fell sharply to 0.25 percent year on year, the lowest level since 2012 and well below the Reserve Bank of India's target range of 2 to 6 percent. The decline was driven primarily by lower food prices and GST cuts. While this provided significant relief to consumers, it also triggered debate regarding the future trajectory of monetary policy.

November witnessed strong momentum in economic growth. GDP growth for the second quarter of FY25-26, covering the June to September period, accelerated to 8.2 percent, the fastest pace in six quarters and well above market expectations.

The year concluded on a positive note with supportive monetary and liquidity measures. December 2025 was particularly notable, as the Reserve Bank of India's (RBI) Monetary Policy Committee cut the policy repo rate by 25 basis points to 5.25 percent. This marked the fourth rate cut of the year and reflected a neutral policy stance amid easing inflation and resilient economic activity. The decision was supported by a sharp moderation in consumer prices and a favorable growth outlook, prompting the RBI to raise its FY26 GDP growth forecast to approximately 7.3 percent, while inflation projections remained near the lower bound of the target range.

To further strengthen liquidity and credit flow, the RBI introduced durable measures, including government bond purchases amounting to ₹2 lakh crore and a 10 billion US dollar rupee swap with a three-year tenor. These initiatives were aimed at easing market stress and improving the transmission of credit across the economy.

In summary, 2025 was defined by significant global and domestic developments. From the assertive policy stance of the US administration and escalating trade tariffs to India's major economic reforms, including the tax cut in Union Budget, GST overhaul, and liquidity support measures, the year reshaped market dynamics. While foreign investment flows and geopolitical tensions influenced volatility, strong GDP growth, low inflation, and strategic trade agreements underscored India's economic resilience. As we move into 2026, India appears well positioned to navigate global uncertainties, supported by robust macroeconomic fundamentals, policy continuity, and resilient domestic demand.

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