



WHITE PAPER | EDITION — MAY 2026

Foreign Capital Flows to India

A Two-Decade Journey (2000–2026): Trends, Drivers, FY26 Recovery & the Road Ahead

Analysing FDI, FPI/FII, ECBs, NRI Deposits & Remittances — Including West Asia War Impact, Rupee Depreciation, Future-Economy FDI Gap, and Policy vs. Global Critical Assessment

May 2026 Edition





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Executive Summary

Since 2000, India has undergone a remarkable transformation from a capital-scarce economy into one of the world's foremost destinations for foreign investment, attracting cumulative gross FDI exceeding USD 1.14 trillion. Yet the past three years have exposed a striking paradox: gross FDI inflows remain near record highs — recovering to an estimated USD 92 billion in FY2026E — while the net FDI metric collapsed to just USD 0.35 billion in FY2025 before beginning a tentative recovery. Simultaneously, Foreign Portfolio Investors have staged their most dramatic equity exodus since 1993, pulling out over ₹2.1 lakh crore (~USD 24 billion) from Indian equities in the first five months of FY2026, driving FPI holdings to a 14-year low of 14.7% of listed stocks.

Three new forces have intensified the challenge since this paper's first edition: (i) the Iran-Israel war and wider West Asia conflict, which has pushed Brent crude toward USD 90/barrel, widened India's current-account deficit, and exerted sustained pressure on the rupee — which hit a record low of ₹94.71/USD in March 2026; (ii) the emergence of a 'future-economy FDI gap', where India has attracted massive announced commitments in AI, data centres, and semiconductors (USD 126+ billion) but actual BoP-recorded FDI flows in these sectors remain a fraction of commitments; and (iii) deepening questions about whether the FDI slowdown reflects fixable policy failures or structural global realities beyond India's control.

This updated white paper provides a rigorous, data-driven answer to each of these questions — and concludes with nine actionable policy recommendations for the government to revive sustainable, high-quality capital inflows.

USD 92 Bn (E) Gross FDI FY2026 (Projected)	₹2.1 Lakh Crore FPI Equity Outflows FY26 (YTD)	₹94.71 / USD Rupee Record Low (Mar 2026)	USD 126+ Bn AI/DC Investment Commitments
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1. India's Capital Account Architecture

India's capital account operates within the framework of the Foreign Exchange Management Act (FEMA), 1999, which replaced the control-oriented FERA with a facilitative regime distinguishing between non-debt (FDI, portfolio) and debt instruments. Under successive amendments — most significantly the FEMA Non-Debt Instruments Rules, 2019 — the framework has evolved into one of the most open among large emerging markets, with the automatic route now covering over 90% of FDI by volume.

1.1 Components of the Capital Account

Foreign Direct Investment (FDI) encompasses equity, reinvested earnings, and intra-company debt. It remains the most stable capital flow but has been reclassified analytically in recent years as the share of Private Equity and Venture Capital — inherently short-cycle investors with 3–7 year exit horizons — rose from 12.2% of total FDI in FY2010 to 75.9% by FY2021. This structural shift has profound implications for net FDI dynamics.

Portfolio Investment (FPI/FII) reflects participation by registered Foreign Portfolio Investors in listed equities and debt instruments. These flows are highly pro-cyclical and have been the primary source of capital-account volatility across every major global stress episode since 2000.

Other Investment covers External Commercial Borrowings (ECBs), trade credit, and banking capital including NRI deposits (FCNR(B), NRE, NRO). Workers' remittances, though classified on the current account, are functionally critical to external financing and are analysed alongside capital flows throughout this paper.

2. Foreign Direct Investment: Trends, Composition & Net Position (FY2001–FY2026)

2.1 Long-Run Trajectory of Gross FDI Inflows

India's gross FDI inflows have grown approximately 23-fold from USD 4 billion in FY2001 to an estimated USD 92 billion in FY2026 — a trajectory spanning four distinct phases. Phase I (FY2001–FY2005) saw nascent flows of USD 4–6 billion, concentrated in IT services and telecom. Phase II (FY2006–FY2009) saw a dramatic surge to USD 22–35 billion on the back of global liquidity abundance and India's 8%+ GDP growth, before the GFC temporarily dented confidence without reversing the structural trend. Phase III (FY2014–FY2020) was defined by the Modi government's systematic FDI liberalisation — Make in India, PLI schemes, IBC, GST — pushing inflows from USD 31 billion to USD 50 billion. Phase IV (FY2021–FY2026) has been characterised by digital economy mega-deals and AI/data centre commitments pushing gross inflows to all-time highs, even as the net FDI metric deteriorated sharply before beginning to recover in FY2026.

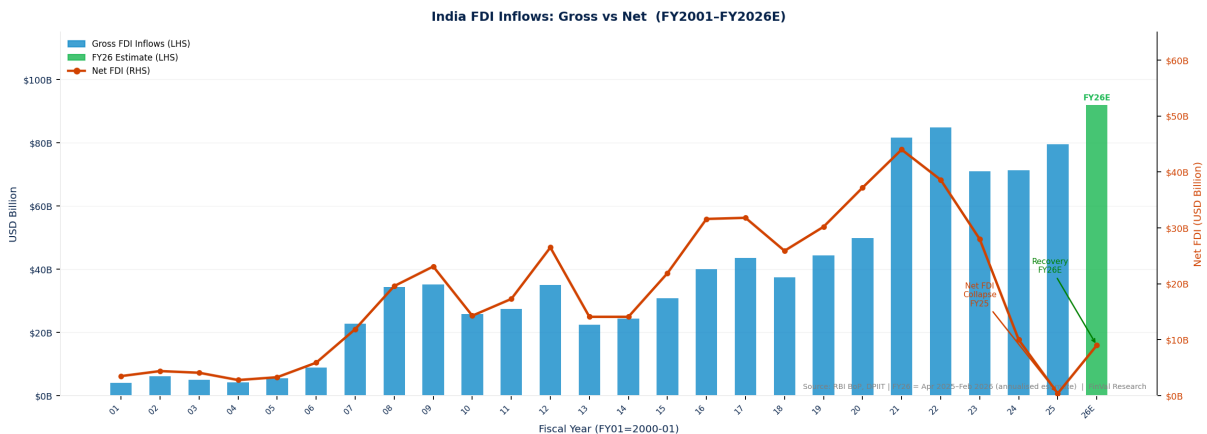


Figure 1: India Gross FDI Inflows vs. Net FDI (FY2001–FY2026E). FY26 bar (green) represents Apr 2025–Feb 2026 annualised estimate (\$88.3Bn actual for 11 months). Source: RBI BoP, DPIIT.



2.2 The Net FDI Paradox and FY2026 Recovery

Net FDI collapsed from USD 44 billion (FY2021) to just USD 0.35 billion (FY2025) — a 99% decline — driven by surging Outward Direct Investment (USD 36.8 billion in FY2025) and accelerating profit repatriations as earlier FDI cohorts matured. The IPO boom of FY2022–FY2025 created exits for PE/VC investors totalling USD 26.7 billion in FY2025 alone, all flowing out as FDI repatriations in BoP terms.

FY2026 has brought early signs of recovery: net FDI for April–February FY26 reached USD 6.26 billion — versus just USD 959 million in the same period of FY25 — suggesting a full-year net FDI of USD 8–10 billion is achievable. The recovery reflects a partial normalisation of outward FDI and repatriation pressures. However, net FDI remains far below the USD 30–44 billion range of FY2016–FY2021, and the structural factors driving the gross-to-net gap have not been resolved.

India Net FDI: Sharp Collapse (FY2021–FY2025)

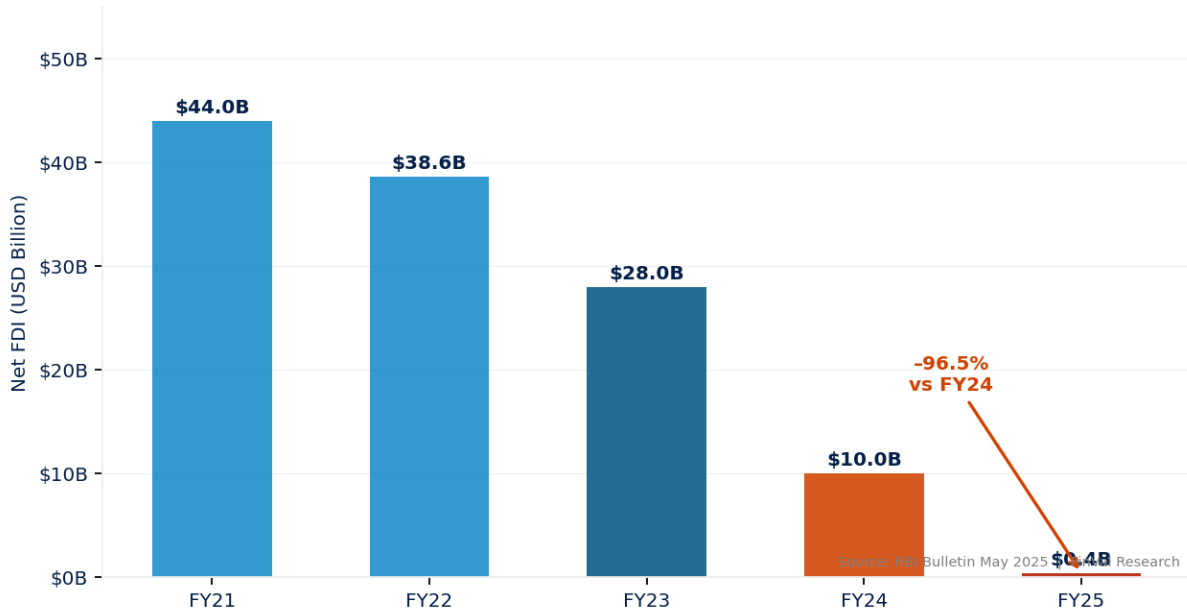


Figure 2: India Net FDI — Collapse and Early Recovery (FY2021–FY2026E). Source: RBI Bulletin.

2.3 Year-wise FDI Data (FY2001–FY2026E)

Fiscal Year	Gross FDI (USD Bn)	FDI Equity (USD Bn)	Outward FDI (USD Bn)	Net FDI (USD Bn)	Key Event / Trigger
FY2001	4.0	2.9	0.5	3.5	FEMA enacted; IT boom; dotcom bust
FY2002	6.1	3.9	1.7	4.4	9/11 global slowdown; NDA push
FY2003	5.1	3.2	1.0	4.1	Iraq War; SARS containment
FY2004	4.3	2.7	1.5	2.8	India Shining campaign; early IT services boom
FY2005	5.5	3.7	2.2	3.3	FDI caps raised; telecom expansion
FY2006	8.9	5.5	3.0	5.9	FDI policy liberalisation; 8%+ GDP growth
FY2007	22.7	15.7	10.8	11.9	Global liquidity glut; telecom, real estate surge



FY2008	34.4	24.6	14.8	19.6	Pre-GFC peak; auto, finance, telecom FDI
FY2009	35.2	22.4	12.1	23.1	GFC erupts; gross resilient; FPI exits
FY2010	25.8	17.5	11.5	14.3	Post-GFC EM recovery; global QE begins
FY2011	27.4	19.4	10.1	17.3	Coal, real estate; 8.4% GDP growth
FY2012	35.1	22.5	8.6	26.5	Retail FDI; e-comm opening; Euro stress
FY2013	22.4	14.4	8.3	14.1	Taper tantrum fears; policy slowdown
FY2014	24.3	16.1	8.2	14.1	Election year caution; IBC drafting
FY2015	30.9	20.8	9.0	21.9	Modi government; FDI liberalisation wave
FY2016	40.0	27.2	8.4	31.6	GST announced; automatic route expansion
FY2017	43.5	29.0	11.7	31.8	Demonetisation; IBC enacted; GST clarity
FY2018	37.4	24.2	11.5	25.9	GST rollout; single-brand retail eased
FY2019	44.4	30.7	11.5	32.9	PLI pilots; NBFC stress; China+1 early phase
FY2020	49.9	35.7	12.7	37.2	COVID-19; digital FDI surge; Jio deals
FY2021	81.7	59.6	12.2	44.0	Record digital FDI; mega platform deals
FY2022	84.8	58.8	18.5	38.6	PLI traction; post-COVID rebound peak
FY2023	71.0	46.0	22.3	28.0	Global FDI slowdown; rate hike cycle
FY2024	71.3	44.4	29.5	10.0	Outward FDI surge; profit repatriations
FY2025	79.5	55.0	36.8	0.4	Net FDI –96.5%; maturity cycle peak
FY2026E	~92.0	~62.0	~28.0	~9.0	Recovery; AI/DC FDI; partial year Apr–Feb \$88.3Bn

Note: Figures approximate; compiled from RBI BoP, DPIIT consolidated FDI data, Economic Survey appendices. FY2026E = estimate based on Apr 2025–Feb 2026 DPIIT data. All USD Billion.



3. Portfolio Flows (FPI/FII): Volatility, Episodes & FY2026 Crisis

3.1 Historical Trends and Structural Role

India's FPI market has grown from sub-USD 10 billion in AUC in 1993 to approximately USD 600–700 billion in equity AUC by FY2025, making it one of the largest EM FPI markets globally. Yet annual net flows remain highly variable — typically driven by US monetary policy, global risk sentiment, and Indian market valuations rather than India's domestic fundamentals.

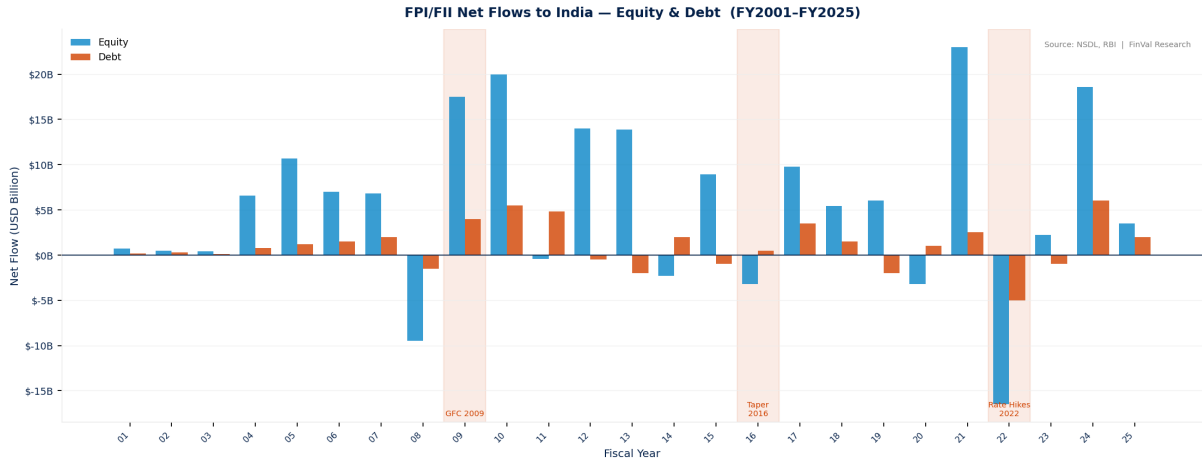


Figure 3: FPI/FII Net Flows — Equity & Debt (FY2001–FY2025). Key outflow episodes shaded. Source: NSDL, RBI.

3.2 FY2026: The Worst FPI Outflow Episode Since 1993

FY2026 has witnessed an extraordinary and historically unprecedented episode of FPI equity selling. By May 2026, net FPI equity outflows had crossed ₹2.1 lakh crore — approximately USD 24 billion — in less than five months, described as the worst yearly outflow since FPI participation began in India in 1993. Aggregate foreign holding in Indian listed stocks fell to a 14-year low of 14.7%, down from over 20% at the peak.

FPI equity outflows in the first five months of FY2026 exceed the entire outflow recorded during the 2022 global rate-hike cycle — the previous record. This underscores the magnitude of the current risk-off wave.

The triggers for this extraordinary outflow are multiple and inter-reinforcing: (i) continued hawkish US Federal Reserve signalling keeping USD strong and US real yields elevated; (ii) escalation of geopolitical tensions — particularly the Iran-Israel war (see Section 7.6) — creating broad EM risk aversion; (iii) India-specific concerns about elevated equity valuations (Nifty P/E remaining above 22x); (iv) Trump administration tariff actions threatening India's export sectors; and (v) FPI rebalancing away from India as bond index inclusion flows taper off.

Debt FPI, however, has partially cushioned the equity outflows — turning net positive in most weeks of 2026 as Indian government bonds (now in JP Morgan and Bloomberg indices) attract passive fixed-income inflows. This 'equity out, debt in' pattern is an important structural feature of India's current capital account dynamics.

3.3 Selected Year-wise FPI Data

FY	FPI Equity Net (USD Bn)	FPI Debt Net (USD Bn)	Total FPI (USD Bn)	Key Market Event
FY04	6.6	0.8	7.4	EM rally; India IT boom; SEBI FII reforms
FY08	6.8	1.0	7.8	Sensex 21,000; sub-prime fears emerging
FY09	-9.5	-1.5	-11.0	GFC shock; Lehman collapse; mass FPI exit



FY10	17.5	4.0	21.5	Global QE stimulus; EM rebound
FY11	20.0	5.5	25.5	India 8.4% GDP; record FPI equity inflows
FY14	-2.3	2.0	-0.3	Taper tantrum; rupee 68/\$; Fragile Five
FY16	-3.2	0.5	-2.7	China slowdown; US rate hike begins
FY20	-3.2	1.0	-2.2	COVID-19 onset; panic selloff Mar 2020
FY21	23.0	2.5	25.5	Record QE; India Nifty +70%; mega FPI inflows
FY22	-16.5	-5.0	-21.5	Fed rate hikes; US CPI >8%; EM sell-off
FY23	2.2	-1.0	1.2	Partial recovery; geopolitical uncertainty
FY24	18.6	6.0	24.6	Bond index inclusion; India growth premium
FY25	3.5	2.0	5.5	Selective inflows; Trump tariff uncertainty
FY26*	-24.0	4.5	-19.5	Worst equity outflows since 1993; ₹2.1L Cr exits; FPI holding 14-yr low

* FY2026 figures as of May 2026 (partial year — approximately 11 months). Source: NSDL, RBI. USD Billion approximate.

4. Other Capital Flows: ECBs, NRI Deposits & Remittances

4.1 ECBs and Trade Credit

External Commercial Borrowings remain an important supplement to domestic credit for capital-intensive sectors. In FY2026, ECB flows have been mixed: while the narrowing US-India interest-rate differential (as RBI cut rates and the Fed held) compressed the cost advantage of ECBs, several large infrastructure and manufacturing borrowers have returned to the market. Net ECB positions remain sensitive to global rate trajectories and the INR's exchange-rate path.

4.2 NRI Deposits: Resilient but Pressured

Outstanding NRI deposits stand at approximately USD 165 billion as of March 2025 — a stock that has grown at roughly 10% CAGR since 2000. Annual deposit inflows rose 10% to USD 16.2 billion in FY2025. In FY2026, the weaker rupee has actually boosted NRI deposit attractiveness in INR-hedged terms, with FCNR(B) and NRE account inflows tracking above FY2025 levels. However, sustained rupee depreciation creates long-run questions about the real-return attractiveness of rupee-denominated NRE accounts.

4.3 Remittances: USD 125 Billion and India's Silent Anchor

India retains its position as the world's largest remittance recipient. Inward remittances reached USD 125 billion in FY2025 — 3.4% of GDP — and are projected to cross USD 130 billion in FY2026. This resilience is structural: India's diaspora, particularly in the GCC and the US, has continued to remit through every crisis. The West Asia conflict (see Section 7.6) has created short-term disruption in GCC-based remittances due to freight delays and financial channel disruptions, but the structural flow is expected to recover. India's policymakers should prioritise converting part of this remittance stream into longer-term, productive investment instruments.

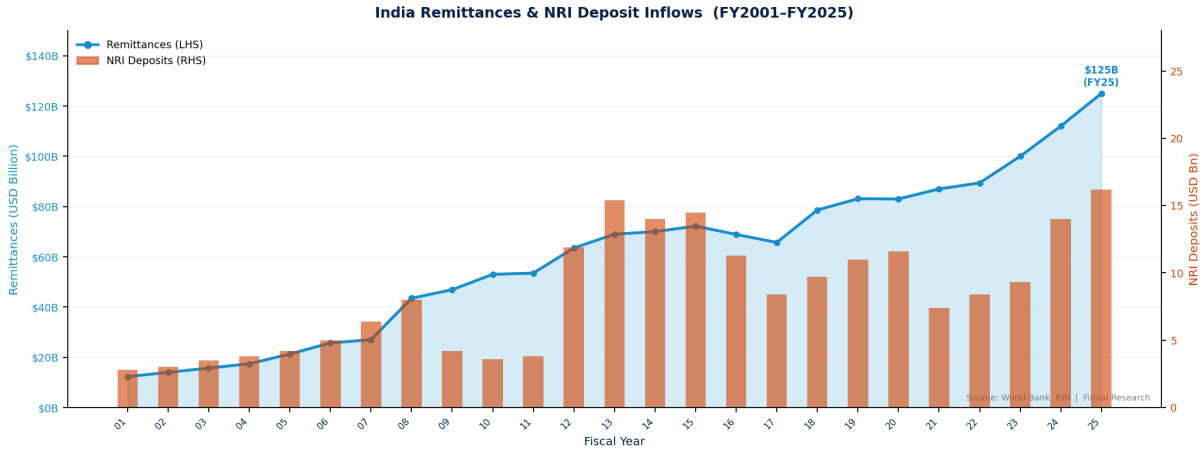


Figure 4: India Remittances & NRI Deposit Inflows (FY2001–FY2025). Source: World Bank, RBI.

5. Balance of Payments: The Macro Picture

India's BoP position in FY2026 is under greater pressure than at any point since 2013. The current account deficit has widened to an estimated USD 40–50 billion in FY2026 — driven by elevated oil import costs (Brent at approximately USD 82–90/barrel), a wider trade deficit, and partial disruption of West Asia-bound exports. Capital account inflows, while recovering in FDI terms, remain insufficient to fully cover the current account deficit without drawing on reserves.

RBI's foreign-exchange reserves — approximately USD 688 billion — provide a substantial buffer, but the central bank has been selling reserves to limit rupee volatility, with the INR/USD rate hitting a record low of ₹94.71 in March 2026 before partial recovery to ₹92–95 range. India's reserves still cover approximately 10+ months of imports and provide among the strongest macro buffers in the EM world.

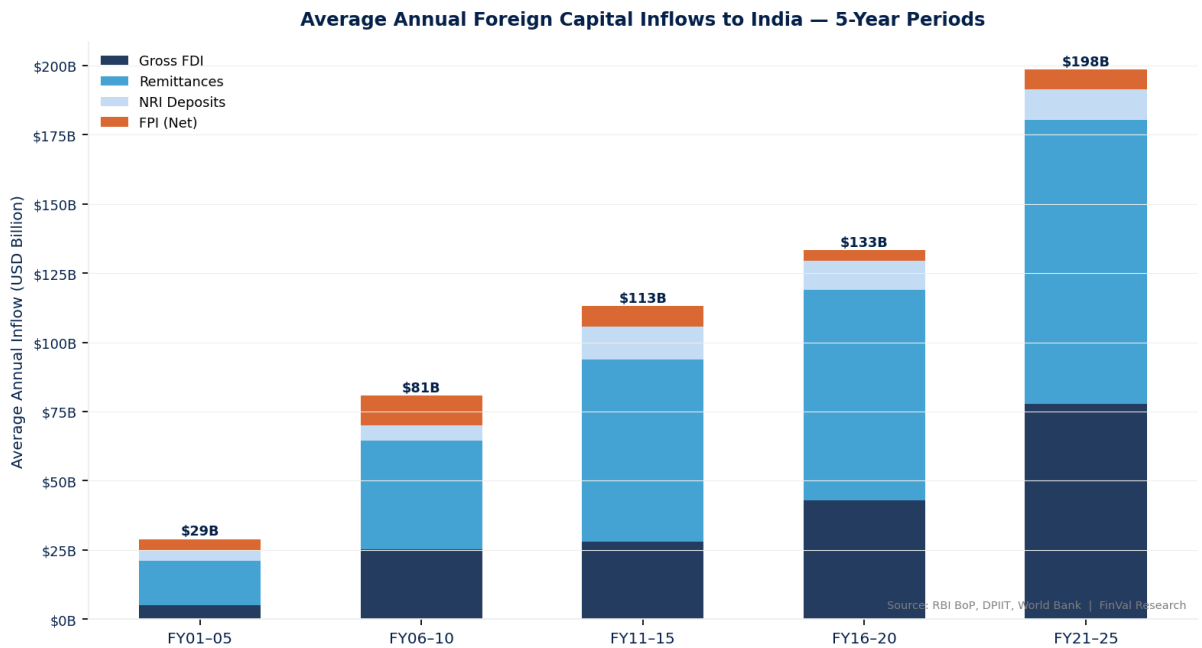


Figure 5: Average Annual Foreign Capital Inflows — 5-Year Period Breakdown. Source: RBI, DPIIT, World Bank.

6. Policy & Regulatory Milestones: A 25-Year Chronology

India's policy framework for foreign capital has evolved from the control-oriented FERA regime of the 1990s to one of the most open among large EMs — a journey achieved through over 150 significant policy amendments. The table below captures pivotal milestones:

Year	Government / Regulator	Key Policy Measure
2000	NDA Government	FEMA replaces FERA; FDI automatic route expanded; IT/telecom caps raised.
2004–09	UPA-I Government	FDI in construction, hospitality. SEZ Act 2005. SEBI expands FII sub-accounts.
2008	RBI / Government	GFC response: ECB liberalisation, NRI deposit rates raised, FX swap windows.
2013	RBI (Dr. Rajan)	Taper tantrum: FCNR(B) swap (\$34Bn). MSS bonds. Macro stabilisation package.
2014	NDA (Modi) Govt.	FDI in railways (100%), defence (49%), insurance (49%). 'Make in India' launched.
2016	NDA Government	IBC enacted. FIPB abolished (single-window). 100% FDI in most services.
2017	NDA Government	GST rollout. FDI in single-brand retail eased. Insolvency framework operational.
2019	MoF / DPIIT	FEMA NDI Rules consolidate FDI/portfolio norms. 100% FDI in coal mining.
2020	NDA Government	China FDI: prior approval required. PLI schemes (13 sectors). Defence FDI 74%.
2021	NDA Government	PLI implementation accelerates. Insurance FDI raised to 74%. ODI liberalised.
2022	DPIIT / RBI	Liberalised ODI guidelines. SEBI FPI registration simplified. ISM launched.
2023	SEBI / RBI	India joins JP Morgan EM Bond Index. Space Policy 2023: 74-100% FDI in space.
2024	NDA Government	FDI in space sector up to 100% (satellites). AI compute budgets in Union Budget.
2025	MoF	New Model BIT text under draft. Samsung \$601M tax order — chill on investor sentiment.
2026	MoF / IRDAI	Insurance: 100% FDI under auto route. China FDI rules eased for tech supply chains.

Source: DPIIT FDI Policy Circulars, RBI Notifications, Ministry of Finance Releases, SEBI Circulars.

7. Global Events and Their Impact on India's Capital Flows

7.1 The Global Financial Crisis (2008–2009)

The collapse of Lehman Brothers in September 2008 triggered the most severe EM capital flight in the post-WWII era. FPIs withdrew approximately USD 9.5 billion from Indian equities in FY2009. India's Sensex fell 52% in CY2008. Despite this, gross FDI remained at USD 35 billion — demonstrating the stickiness of long-term strategic investment. RBI responded with rate cuts, liquidity injection, and temporary ECB relaxation.

7.2 The Taper Tantrum (2013)



Ben Bernanke's May 2013 tapering signals placed India among the 'Fragile Five' — economies with twin deficits most vulnerable to sudden capital stops. The rupee depreciated 15–20% to ₹68/USD. RBI launched the FCNR(B) swap window (raising USD 34 billion), raised short-term rates by 300 bps, and restricted speculative INR positions. The episode established the precedent for India's emergency stabilisation toolkit.

7.3 The COVID-19 Pandemic and the Stimulus Boom (2020–2021)

COVID-19 caused USD 100 billion in global EM outflows in eight weeks (March–April 2020). India's FPI recorded sharp equity outflows. However, the USD 9 trillion global stimulus response reversed the dynamic swiftly: FDI reached USD 81.7 billion gross in FY2021, FPI equity recorded USD 23 billion net inflows, and India's Nifty 50 rallied 70% — one of the strongest EM equity recoveries globally.

7.4 The Global Rate-Hike Cycle (2022–2024)

The Fed's fastest tightening cycle in four decades (0.25% to 5.50% in 18 months) was the most significant external headwind for India's capital account in recent memory. Net FPI outflows of USD 21 billion in FY2022, RBI reserve sales of USD 80+ billion, and rupee depreciation to ₹83/USD defined this period. India's bond index inclusion announcements provided partial offsets in FY2023–FY2025.

7.5 US Tariff Escalation and Geopolitical Fragmentation (2024–2026)

The Trump administration's broad tariff package — including a proposed 26% baseline on Indian exports — creates dual headwinds: directly threatening export-oriented FDI in garments, electronics, and gems; and indirectly amplifying EM risk-off sentiment. UNCTAD data shows global FDI fell 11% in 2024, reflecting broader geopolitical fragmentation of investment flows. India's 'China+1' positioning has attracted some supply-chain FDI in electronics and pharmaceuticals, but the overall global FDI pool available to EMs has contracted.

7.6 The West Asia War (2024–2026): Energy, Trade & Currency Shock

The Israel-Iran conflict escalation of 2025–2026 represents the most significant West Asia shock to India's economy since the 1973 oil crisis — affecting oil prices, trade routes, remittances, and the rupee simultaneously.

The escalating conflict in West Asia — centring on the Israel-Iran confrontation that intensified through 2025–2026 — has created a multi-channel shock to India's external finances:

- **Oil Price Shock:** Brent crude prices rose 40–50% to approximately USD 100 per barrel as the conflict threatened Strait of Hormuz transit. India, which imports approximately 85% of its oil, faces an estimated additional USD 25–30 billion annual energy import burden at USD 100/barrel vs. the assumed USD 70/barrel in the Union Budget 2025–26. Every USD 10/barrel rise in oil adds approximately USD 14–15 billion to India's import bill and 40–50 bps to the current-account deficit.
- **Trade Disruptions:** Approximately USD 11.8 billion of India's food and agricultural exports to West Asia are at risk from shipping disruptions. Red Sea rerouting has extended shipping times by 10–14 days and raised freight costs by 30–50%. Over 3,000 containers were reportedly stranded at Indian ports during peak conflict periods.
- **Fiscal Pressure:** If Brent sustains at USD 80+ per barrel, India's energy subsidies could increase by ₹30,000–50,000 crore (USD 4–6 billion), pressuring the fiscal consolidation path and widening the current-account deficit.
- **Remittance Disruption:** The GCC countries account for approximately 40% of India's inward remittances (~USD 50 billion annually). Short-term disruptions to remittance channels and economic uncertainty in Gulf labour markets create a risk of FY2026 remittance undershooting, though the structural flow is expected to recover.
- **Capital Flow Impact:** The West Asia conflict has amplified EM risk-off sentiment globally. India-specific concerns about oil price inflation, rupee weakness, and current-account widening have contributed to the FPI equity outflow episode of FY2026.

India's government has emphasised energy security diversification — including accelerating domestic oil production, expanding the strategic petroleum reserve, and deepening renewable energy investment — as part of the structural response to West Asia risk. The IMF's April 2026 World Economic Outlook flagged the conflict as a key downside risk to its global growth forecast.

7.7 Rupee Depreciation: The External-Sector Feedback Loop

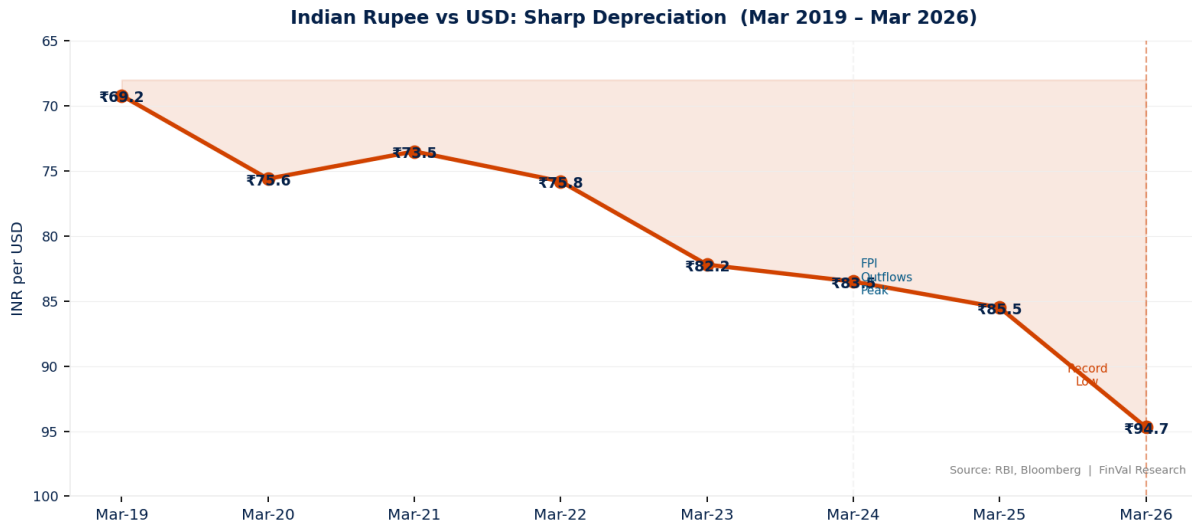


Figure 6: Indian Rupee vs USD (March 2019–March 2026). The rupee hit a record low of ₹94.71/USD in March 2026. Source: RBI, Bloomberg.

The Indian rupee has depreciated approximately 14% from ₹85.53/USD in March 2025 to a record low of ₹94.71/USD in March 2026 — one of the steepest sustained slides since 2013. The current depreciation episode is driven by multiple reinforcing factors:

- FPI equity outflows of USD 17–18 billion in FY2026 (direct demand-supply pressure on INR).
- Elevated oil import bill (West Asia conflict premium on crude).
- Structural USD strength — the DXY index remains near multi-year highs as US real yields stay elevated.
- Widened current-account deficit (estimated USD 40–50 billion for FY2026).
- Reduced net FDI providing less natural USD inflow to offset current-account outflows.

The rupee's depreciation creates a complex feedback loop for capital flows. On one hand, a cheaper INR reduces the USD returns on Indian investments for foreign investors, further dampening FPI appetite. On the other hand, it makes Indian exports more competitive, eventually improving the current account, and makes India's equity market valuations more attractive in USD terms. RBI has maintained its strategy of intervening to smooth excessive volatility while allowing gradual adjustment — keeping reserves in the USD 640–700 billion band.

8. The Future-Economy FDI Deficit: AI, Semiconductors, Space & Data Centres

One of the most analytically important questions for India's long-term capital-flow trajectory is whether the country is successfully attracting the 'frontier capital' of the digital age — FDI in artificial intelligence, semiconductors, space technology, and data centre infrastructure — or whether it risks being left behind in the global race to capture these high-value investment flows. The evidence is mixed and warrants careful examination.

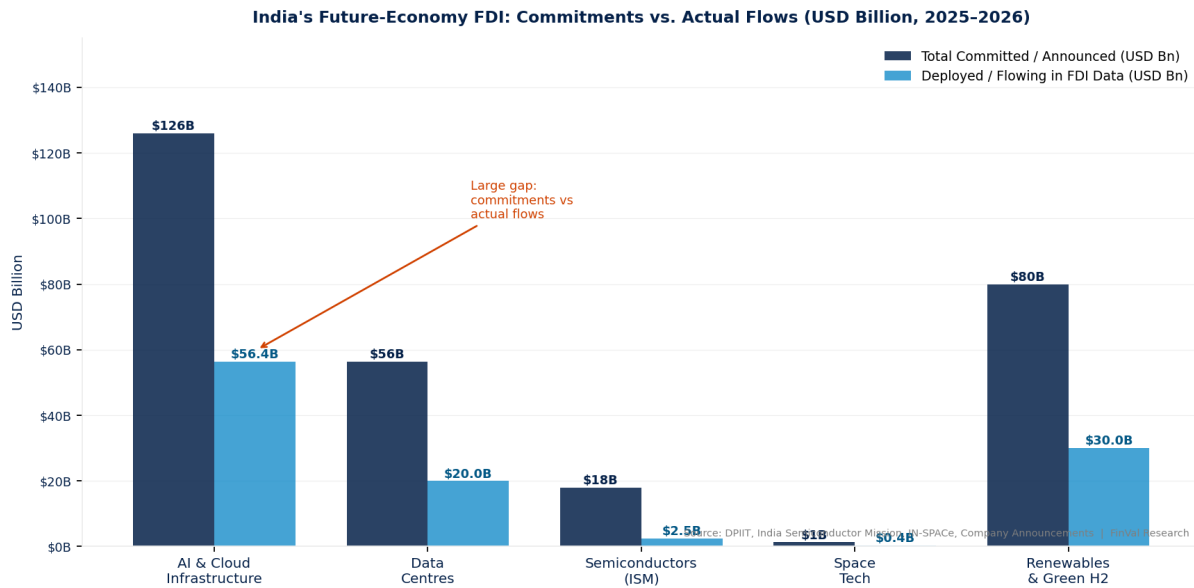


Figure 7: India's Future-Economy FDI — Committed/Announced vs. Actually Flowing (USD Billion, 2025–2026 estimates). The large gap between commitments and deployed capital is the defining challenge. Source: DPIIT, ISM, IN-SPACe, Company Disclosures.

8.1 AI and Data Centre Infrastructure: Enormous Commitments, Deployment Lag

India has attracted some of the world's largest AI infrastructure commitments of any single non-US/China market. Cumulative announced investments as of early 2026 exceed USD 126 billion, with USD 56.4 billion reportedly deployed in 2025 alone. The headline deals include: Microsoft USD 17.5 billion (2025–2029, its largest Asia investment), Amazon AWS USD 12.7 billion (through 2030), and Google USD 15 billion (2026–2030), which broke ground on India's first gigawatt-scale AI hub in April 2026 — three data centre campuses forming a national industrial AI ecosystem. Domestically, Reliance Industries announced plans for a USD 17 billion, 1.5 GW data centre cluster in Visakhapatnam with captive renewable energy.

Operational data centre capacity stands at approximately 1.3–1.53 GW (IT load), projected to reach 4–5 GW by 2030 in base-case scenarios and 8–9 GW under AI-accelerated scenarios. The Union Budget 2026–27's 20-year tax holiday for foreign cloud providers serving global customers from Indian facilities provides unprecedented fiscal certainty that meaningfully reduces the cost of cross-border structuring.

However, a critical distinction must be drawn: these commitments are largely not yet flowing as BoP-recorded FDI. Construction timelines for hyperscale data centres span 2–5 years; equipment procurement routes (from Taiwan, South Korea, Netherlands) are classified as goods imports rather than FDI; and 'committed' figures from tech companies sometimes include operating expenditure, local purchasing, and hiring — not equity capital injections. India needs to track the actual BoP FDI flows into this sector, not just announcement headlines, to accurately assess its future-economy FDI performance.

8.2 Semiconductors: Promising Start, Strategic Gaps Remain

The India Semiconductor Mission (ISM), launched in 2021 with ₹76,000 crore (~USD 8.5 billion) in incentives, has approved 10 projects totalling ₹1.60 lakh crore in investments as of late 2025. These include Micron's ATMP (Advanced Test, Mark & Package) facility in Gujarat — India's first semiconductor manufacturing plant, a USD 2.75 billion investment — and TATA Electronics' fab (in partnership with Powerchip) in Dholera.

Critically, however, India has not yet secured a leading-edge chip fabrication facility (advanced node below 10nm). Global semiconductor FDI in cutting-edge fab technology has flowed predominantly to the US (TSMC Arizona, Samsung Texas), Japan (TSMC Kumamoto), and increasingly the EU — driven by geopolitical ally considerations and the CHIPS Act. India's semiconductor story remains one of chip packaging, ATMP, and mature-node fabs rather than frontier silicon. India's ongoing trade deficit with China in electronics and semiconductor components hit a record USD 100 billion in FY2025 — the lion's share being semiconductor inputs — underscoring the structural gap between aspiration and current capability.

8.3 Space Technology: A Quiet Revolution Under Way

India's space sector has undergone a genuine structural transformation. From a single-player (ISRO) industry in 2020, the sector now boasts 400+ private commercial entities as of 2026. The Indian Space Policy 2023 allows 74–100% FDI across satellite manufacturing, operations, and ground segment activities. The government has committed ₹10,000 crore (USD 1.18 billion) through IN-SPACe to invest in 40+ companies across the space ecosystem.

Private sector funding reached USD 196 million in 2025 alone, taking total private funding since 2020 to USD 415 million — modest in global terms but accelerating. India's long-term space economy is targeted at USD 44 billion by 2033, implying a 5x expansion from current levels. Strategic assets include ISRO's proven launch vehicle technology, a growing constellation of commercial Earth observation startups (Pixxel, Skyroot, Agnikul), and a cost-competitive talent base. However, FDI into space remains constrained by: (i) unclear framework for international collaboration on sensitive technologies; (ii) limited venture capital depth for capital-intensive hardware; and (iii) competition from more established space ecosystems (US SpaceX/Blue Origin, EU Arianespace).

8.4 The Commitment-to-Flow Gap: A Strategic Risk

The defining strategic risk for India's future-economy FDI positioning is the large and persistent gap between announced commitments and BoP-recorded capital flows. While India's political leadership has been effective at securing headline investment pledges — often at investor summits and diplomatic visits — the translation of pledges into operational facilities, employment, and actual foreign equity investment has consistently lagged by 3–5 years. This 'announcement-to-deployment' gap creates a misleading impression of capital inflow strength that may not be reflected in formal BoP statistics for several years.

India should establish a formal commitment-to-deployment tracking mechanism — publishing quarterly data on the gap between announced and actually-deployed FDI by sector — to create accountability and identify bottlenecks in regulatory clearance, land acquisition, infrastructure provision, and skilled labour availability.

9. Is India's FDI Decline Policy-Made or Globally Driven? A Critical Assessment

The most consequential analytical question for Indian policymakers is whether the deterioration in net FDI and the FPI outflow episode reflect correctable domestic policy failures, or whether they are primarily the product of global forces and structural investment-cycle dynamics beyond India's direct control. The answer is nuanced — and the precise attribution matters enormously for policy design.

FinVal's assessment: approximately 60–65% of the current weakness in net FDI and portfolio flows is attributable to global/structural factors (monetary tightening, FDI maturity cycle, global retrenchment, geopolitical risk). However, the remaining 35–40% — the policy-specific portion — represents the urgently actionable lever that the Indian government must address to prevent a permanent re-rating of India's investment attractiveness.

9.1 The Verdict Matrix

Factor	Evidence of Policy Causation	Evidence of Global / Structural Causation
Net FDI Collapse	Rising profit repatriations from mature FDI cohorts triggered by India's IPO boom. ODI liberalisation (2022) accelerating outward investment.	Global FDI down 11% (2024 UNCTAD). FDI maturity cycle: PE/VC share rose from 12% to 76% of FDI — inherently short-cycle.
FPI Equity Outflows	Elevated domestic valuations (P/E 22–24x vs EM average 12–14x) partly a function of domestic policy creating growth premium — but also a deterrent to incremental FPI.	Fed rate hikes 2022–24 compressed EM-DM spreads. US 10Y yields at 4–5% make risk-free returns attractive. Global EM risk-off.

Regulatory Actions	Samsung \$601M retroactive tax (Mar 2025). Ongoing enforcement on Google, Amazon, Xiaomi, Nokia. E-commerce inventory rules restrict business models.	India not alone: UK, EU, US also targeting Big Tech. Global trend of digital sovereignty and tech regulation is universal.
Currency Depreciation	FPI outflows of \$17–18B driven partly by regulatory perception. Trade deficit widened due to delayed FTA progress.	West Asia oil shock raised India's import bill. USD structurally strong (safe-haven + high US yields). Most EM currencies depreciated similarly.
Future-Economy FDI Gap	Semiconductor chip fab still absent (only packaging approved). AI regulation framework incomplete. Data localisation ambiguity deters hyperscalers.	Global chip fab FDI concentrated in US, Japan, EU (geopolitical ally preference). India not the primary competitive choice for advanced node fabs.
Overall Verdict	~35–40% of the weakness is attributable to policy-specific issues — tax uncertainty, regulatory actions, incomplete BIT framework, unresolved sectoral rules.	~60–65% reflects global monetary tightening, FDI maturity cycle, EM risk-off, West Asia conflict, and the global FDI retrenchment of 2023–24.

Source: FinVal Research analysis based on RBI BoP data, DPIIT, US State Department 2025 Investment Climate Statement, CSIS analysis, Business Standard, and company disclosures.

9.2 The Policy Case: Where India Can and Must Act

The policy failures contributing to FDI/FPI weakness are real, specific, and actionable. **The most damaging is the continuing perception of tax unpredictability.** India's formal repeal of retrospective taxation in 2021 was a positive signal — but the March 2025 Samsung USD 601 million back-tax order nearly wiped out the company's annual India net profit and sent a chilling signal to multinational investors globally. The pattern of high-profile enforcement actions against Google, Amazon, Nokia, Xiaomi, and others — regardless of their individual legal merits — creates a reputational risk premium that compounds across investors' India allocation decisions.

A second policy-specific factor is the Bilateral Investment Treaty (BIT) vacuum. India unilaterally terminated most of its BITs in 2016–2018 and has not yet concluded a new BIT with the EU, UK, US, or most major investment-source countries. The revised Model BIT draft (announced 2025) is yet to be concluded into binding agreements. This leaves foreign investors — particularly mid-size and institutional investors without the scale to manage legal risk internally — with limited treaty protection for their India investments.

Third, the e-commerce and digital economy regulatory framework has remained unsettled for nearly a decade. Amazon and Flipkart continue to operate under persistent uncertainty about inventory-model restrictions, marketplace definitions, and deep-discount rules. **Data localisation requirements (under the Digital Personal Data Protection Act) add compliance costs without a clear global precedent,** making India's regulatory environment for digital FDI materially more complex than Singapore, UAE, or the UK.

9.3 The Global/Structural Case: Forces India Cannot Control

The dominant driver of India's net FDI collapse in FY2024–FY2025 was the natural maturation of earlier FDI cohorts — not any single policy failure. **The share of PE/VC in India's FDI has risen from 12% to 76% over 15 years.** These investors have defined return horizons (typically 7–10 years from entry) and India's IPO market boom of FY2022–FY2025 created multiple exit opportunities simultaneously, generating an exceptional repatriation surge that is likely a one-time cyclical event rather than a secular trend.

The Fed's interest-rate cycle has been decisive for FPI flows: every major FPI outflow episode since 2013 (taper tantrum, 2016 hike cycle, 2022 mega-hike cycle, and now 2025–26 continued tightening) has been US-monetary-policy-driven. India cannot meaningfully insulate itself from this dynamic given its integration into global financial markets — and nor should it try, given the benefits of that integration.

The global FDI slowdown of 2023–2024 (UNCTAD: –11% in 2024) was a broad-based phenomenon affecting most emerging markets. India's relative performance — maintaining USD 71–80 billion in gross inflows during a global FDI recession — was commendable and reflects the underlying structural attractiveness of the India opportunity.



9.4 The Compound Effect: When Policy Risk Meets Global Uncertainty

The most insidious dynamic is the interaction between global uncertainty and domestic policy risk. When global conditions are benign (2020–21), investors are willing to accept India-specific regulatory risk as a price for growth exposure. When global conditions tighten (2022–26), investors apply a 'flight to quality' filter — and India's policy unpredictability becomes a decisive reason to reduce exposure rather than just accept it. This means the marginal damage from policy failures is disproportionately large during global risk-off episodes — precisely when India most needs stable foreign capital.

The practical implication: India must use the current period of elevated global uncertainty to urgently fix the fixable — tax certainty, BIT completion, digital regulation clarity — because these reforms are most valuable precisely when global conditions are most challenging.

10. Anatomy of Current Outflows: Internal & External Triggers

Building on the macro analysis above, this section summarises the specific triggers — external and internal — driving the current phase of net FDI weakness and FPI outflows.

10.1 External Triggers

i. US Monetary Policy and Real Yields

US 10-year Treasury yields at 4–5% keep the risk-free return attractive, compressing the EM risk premium and incentivising global portfolio reallocation from EM equities and bonds to US investment-grade assets.

ii. West Asia Conflict and Oil Price Shock

The Iran-Israel war of 2025–2026 has raised Brent crude to USD 100/barrel, widening India's current-account deficit by an estimated USD 25-30 billion, pressuring the rupee, and generating broad EM risk-off sentiment.

iii. US Tariff Actions

A proposed 26% baseline tariff on Indian exports threatens export-oriented FDI and amplifies EM risk aversion, reducing the appeal of incremental India investment.

iv. Global FDI Retrenchment

UNCTAD reports an 11% decline in global FDI in 2024, reducing the total pool of internationally mobile capital available to all destinations including India.

10.2 Internal Triggers

i. FDI Maturity Cycle & PE/VC Exits

PE/VC now accounts for 76% of India's FDI — investors with defined exit horizons. The IPO boom of FY2022–FY2025 created USD 26.7 billion in PE/VC exits in FY2025 alone, all flowing out as FDI repatriations.

ii. Surging Outward Direct Investment

Liberalised ODI guidelines (2022) and Indian corporate globalisation pushed outward FDI to USD 36.8 billion in FY2025 — directly compressing the net FDI metric.

iii. Tax and Regulatory Uncertainty

The Samsung USD 601 million retroactive tax order (March 2025) and ongoing enforcement actions against Google, Amazon, Nokia, Xiaomi have crystallised concerns about regulatory predictability, creating a risk premium in investors' India discount rates.

iv. Elevated Equity Valuations

India's Nifty P/E ratio (22–24x) is 60–70% above the MSCI EM average (12–14x). While partly justified by India's growth premium, elevated valuations reduce the risk-adjusted attractiveness of incremental FPI investment.

v. Future-Economy FDI Gap

India's weak position in advanced semiconductor fabs, uncertain AI regulatory framework, and the large gap between AI/data centre commitments and BoP-recorded flows means the 'future-economy FDI' narrative is running ahead of actual capital flows.

11. Policy Recommendations: Nine Imperatives for Reviving Capital Flows

The analysis in this paper leads to nine actionable policy recommendations. The first seven address structural priorities; the final two are specific to the new challenges identified in this updated edition.

01

Anchor Macro Stability — Fiscal, Monetary & FX

Maintain fiscal consolidation, inflation targeting, and a market-determined exchange rate. RBI's reserves should be preserved as a volatility buffer. Continue supporting India's global bond index inclusion to diversify the FPI investor base toward passive, long-duration allocations.

02

Urgently Resolve Tax Certainty — The Samsung Signal Must Be Reversed

Institutionalise a formal 'non-adversarial tax' compact with large FDI investors. The Samsung retroactive tax order (2025) — and similar actions — must be resolved swiftly and transparently to prevent compounding reputational damage. A fast-track dispute resolution mechanism (perhaps under the Model BIT framework) would provide structural credibility.

03

Conclude a New Bilateral Investment Treaty Architecture

India's BIT vacuum (since 2016–18 terminations) leaves investors without treaty protection. Fast-track BIT negotiations with the EU, UK, UAE, and the US — utilising the new Model BIT text announced in 2025 — to provide binding investor protection, dispute resolution, and fair treatment guarantees.

04

Refocus FDI Strategy on Smart Manufacturing and PLI Execution

Shift from maximising gross FDI volume to attracting technology-transfer-intensive, export-oriented FDI in PLI-aligned sectors. Address the chronic gap between PLI approvals and actual capex deployment — particularly in electronics, specialty chemicals, and medical devices.

05

Resolve Digital Economy Regulatory Uncertainty

Provide legal clarity on e-commerce rules (inventory vs. marketplace models), data localisation under the DPDP Act, and competition policy enforcement parameters. A 'Digital Investment Certainty Compact' — committing to stable rules for a defined period — would materially reduce the regulatory risk premium foreign digital investors attach to India.

06

Bridge the Future-Economy FDI Commitment-to-Deployment Gap

Establish a formal quarterly 'commitment-to-deployment' tracker for AI, semiconductor, and data centre FDI. Create dedicated single-window clearance for projects above USD 500 million in these sectors. The 20-year tax holiday for foreign cloud providers (Budget 2026–27) is the right direction — execute it decisively.

07

Build a West Asia Resilience Framework

Accelerate domestic oil production and strategic petroleum reserve expansion to reduce oil-shock vulnerability. Fast-track renewable energy and green hydrogen investment (which can reduce oil import dependency). Diversify trade finance and remittance channels for GCC-based diaspora to reduce West Asia conflict transmission risk.



08

Leverage the Diaspora Beyond Remittances

Convert India's USD 125+ billion remittance ecosystem into productive investment through diaspora infrastructure bonds, co-investment platforms in PLI sectors, and simplified NRI investment vehicles. The diaspora represents a natural, low-risk source of long-term, patient capital.

09

Improve Data Transparency and Narrative Management

Publish granular, timely data distinguishing gross FDI from net FDI, and separating commitment announcements from BoP-recorded flows. Proactive, evidence-based communication from RBI, MoF, and DPIIT — framing the net FDI decline as a maturity-cycle phenomenon while demonstrating FY2026 recovery — can prevent market over-reactions and maintain investor confidence.

12. Conclusion

India's 25-year journey with foreign capital is a story of profound structural achievement — from a USD 4 billion FDI destination in 2001 to the world's fifth-largest FDI recipient, with remittances that rival the GDP of medium-sized nations and a capital account that has financed continuous current-account deficits while accumulating USD 688 billion in reserves.

The current moment is simultaneously a stress test and an opportunity. The combination of West Asia oil shock, unprecedented FPI equity outflows, a record-weak rupee, and the net FDI paradox presents genuine challenges. But FY2026 is also showing early signs of net FDI recovery, massive AI/data centre investment deployment, and the structural promise of bond index inclusion providing a more stable, passive FPI base going forward.

The critical lesson of this analysis is that India's policy failures — real but fixable — become disproportionately damaging during periods of global uncertainty. Resolving tax certainty, completing the BIT framework, clarifying digital regulation, and bridging the commitment-to-deployment gap in future-economy FDI are not merely incremental reforms. In the current global environment, they are strategic imperatives that could mean the difference between India cementing its place as a tier-1 global investment destination for the next quarter-century — or ceding ground to increasingly competitive EMs like Vietnam, Indonesia, and Mexico that are systematically addressing similar challenges.

FinVal Research & Consultancy remains committed to tracking these dynamics and providing rigorous, independent analysis to support informed decision-making by policymakers, investors, and corporate strategists engaged with India's remarkable — and still unfinished — capital-account story.



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