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Why foreign investors are not bullish on India

India may be the world's fastest-growing economy. Yet, it is not attracting commensurate foreign capital inflows, which are actually at a decade-and-a-half low.

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The trend has continued in the current fiscal, with capital inflows during April-June 2025 falling over 40% compared to that for April-June 2024.

India is the world's fastest-growing major economy, with its annual GDP increase averaging 8.2% during 2021 to 2024.

That's more than the corresponding rates over these four years for Vietnam (5.8%), China (5.5%), Malaysia (5.2%), Indonesia (4.8%), United Kingdom (3.7%); United States, Brazil and

Mexico (3.6%), Argentina (3.1%), European Union (2.8%), Thailand (2.2%), and Japan (1.3%), as per World Bank data.

The growth momentum has been maintained even this calendar year. According to the National Statistics Office, the Indian economy registered year-on-year GDP growth of 7.4% and 7.8% respectively in the January-March and April-June 2025 quarters.

The impressive growth rates, however, don't seem to be reflected in the foreign capital flows received by the country.

Take foreign portfolio investors (FPI). During the last five financial years (April-March) from 2021-22, only one year (2023-24) saw net FPI inflows of $25.3 billion into Indian equity markets. In all other years, the FPIs pulled out more than what they invested, translating into net outflows of $18.5 billion in 2021-22, $5.1 billion in 2022-23, $14.6 billion in 2024-25 and $2.9 billion in 2025-26 (till September 5).

Foreign capital paradox

An economy growing at relatively high rates would normally also attract capital flows from overseas investors keen to share in the benefits of that growth. Countries such as India that are capital-starved, moreover, need foreign money.

But the accompanying table shows net capital flows into India – that includes foreign investment, commercial borrowings, external assistance and non-resident Indian deposits – at just $18.3 billion in 2024-25, the lowest since the $7.8 billion in the global financial crisis year of 2008-09 and well below the all-time-high of $107.9 billion in 2007-08.

BALANCE OF PAYMENTS: CAPITAL VERSUS CURRENT

	Capital Inflows (Net)	Trade Balance (1)	Invisibles Balance (2)	Current Account (1-2)
2007-08	107.9	-91.47	75.73	-15.74
2008-09	7.84	-119.52	91.60	-27.91
2009-10	51.62	-118.20	80.02	-38.18
2010-11	61.10	-127.32	79.27	-48.05
2011-12	65.32	-189.76	111.60	-78.16
2012-13	91.99	-195.66	107.49	-88.16
2013-14	47.80	-147.61	115.31	-32.30
2014-15	88.27	-144.94	118.08	-26.86
2015-16	40.06	-130.08	107.93	-22.15
2016-17	35.97	-112.44	98.03	-14.42
2017-18	92.29	-160.04	111.32	-48.72
2018-19	53.92	-180.28	123.03	-57.26
2019-20	84.15	-157.51	132.85	-24.66
2020-21	63.37	-102.15	126.07	23.91
2021-22	86.27	-189.46	150.69	-38.77
2022-23	57.92	-265.29	198.24	-67.06
2023-24	89.81	-244.91	218.80	-26.11
2024-25	18.34	-287.21	263.85	-23.37
Apr-Jun 24	**13.11**	**-63.80**	**55.13**	**-8.68**
Apr-Jun 25	**7.70**	**-68.46**	**66.09**	**-2.37**

Figures in billion dollars, Source: Reserve Bank of India.

The trend has continued in the current fiscal, with capital inflows during April-June 2025 falling over 40% compared to that for April-June 2024. This was despite a stronger-than-expected GDP growth of 7.8% in the latest quarter.

It raises the obvious question: Why aren't overseas investors partaking in the India Growth Story? Are they less sanguine about the country's economic prospects now than before?

Official balance of payments (BOP) data does seem to suggest this possibility.

Thus, net foreign investment peaked at $80.1 billion in 2020-21, the year of the Covid-19 pandemic. It plunged to $21.8 billion in 2021-22 and $22.8 billion in 2022-23, before recovering to $54.2 billion in 2023-24. But the following fiscal recorded net flows of only $4.5 billion, comprising $959 million of foreign direct investment (FDI) and $3.6 billion of FPI money. The latter included $19 billion of net investment in government bonds and other debt instruments, offsetting outflows of $15.7 billion through sell-offs in the equity market.

On the other hand, external commercial borrowings have gone up, with net inflows of $15.8 billion in 2024-25, as against outflows of $86 million and $3.8 billion in the preceding two fiscals.

Why capital flows have dipped

A plausible explanation for India not receiving foreign capital flows commensurate with its status as the world's fastest-growing major economy has to do with past investments.

A lot of FDI that flowed into India from roughly the middle of the last decade, peaking in 2020-21, were in the form of private equity (PE) and venture capital (VC) investments – in diverse sectors, from retail, e-commerce and financial services to green energy, healthcare and real estate. Those who put in this money are now cashing out by selling the shares they had originally bought, either to other firms engaged in the same business or via initial public offerings by the investee companies.

Such exits by investors seeking to monetise their profitable "mature positions" were valued at $24 billion in 2022, $29 billion in 2023 and $33 billion in 2024, according to Bain & Company. The American management consulting firm reckons about 59% of PC/VC exits in 2024 to have been through public markets that were, in turn, enabled by the rich stock valuations in India.

Something similar has happened with FPIs. Even as they have been on sell-off mode, their place has been taken by the more bullish domestic investors who have ensured attractive public market valuations for profitable exits – whether by FPIs or PE/VC firms.

BOP implications

India's imports of goods far exceed its exports, resulting in large merchandise trade deficits that have more than trebled since 2007-08 to $287.2 billion in 2024-25.

But the ballooning goods trade deficits have been greatly counterbalanced by surpluses on the "invisibles" account of the BOP, mainly arising from exports of services and private remittances sent by overseas Indians.

The **invisibles surpluses** have kept the overall current account deficits in India's external transactions well below $50 billion in most years, as can be seen from the table. These deficits have then been comfortably financed through capital inflows, with excesses adding to the official foreign exchange reserves.

That comfort could come under challenge, though, in a scenario of further widening of trade deficits or drying up of capital flows. The US President Donald Trump's 50% tariffs on Indian goods can particularly derail shipments to a market that accounted for $86.5 billion out of its total goods exports of $437.7 billion in 2024-25.

As far as capital inflows go, much rests upon how foreign investors perceive India. Their primary concern, beyond headline GDP growth numbers, is corporate earnings – whether these are rising sufficiently to justify their investments. For them, the overall business climate and sustainability of earnings is what matters; if market valuations are seen to be unreasonably high, they would rather cash out rather than invest afresh.

The rupee, on Friday, hit a new low of 88.37-to-the-dollar before closing at 88.26. Much of that was courtesy of capital outflows and worries over the Trump tariffs.

It also explains the Narendra Modi government's recent burst of reforms, especially the slashing of goods and services tax rates (to help boost domestic consumption and company earnings) and a proposed "task force for next-generation reforms" (to improve the ease of doing business).

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