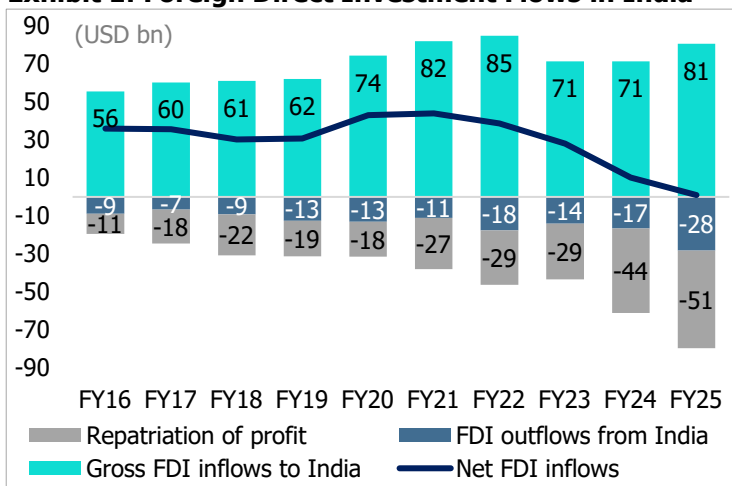


# India Remains an Attractive FDI Destination

December 08, 2025 | Economics

In the last five years, India’s annual gross FDI inflows have hovered between USD 70 and 85 billion, recording a flat CAGR of around 2% (FY20-25). However, the momentum has picked up, with gross FDI inflows jumping up sharply in FY25 and H1 FY26. While gross inflows have improved, we are also seeing a higher repatriation of profits by investors and FDI outflows from India. This has led to a sharp decline in net FDI inflows. Net FDI flows (Gross inflows - repatriation of profit - FDI outflows from India) have fallen from USD 44 billion in FY20 to USD 1 billion in FY25, and the weakness has continued in FY26 despite some improvement.

**Exhibit 1: Foreign Direct Investment Flows in India**



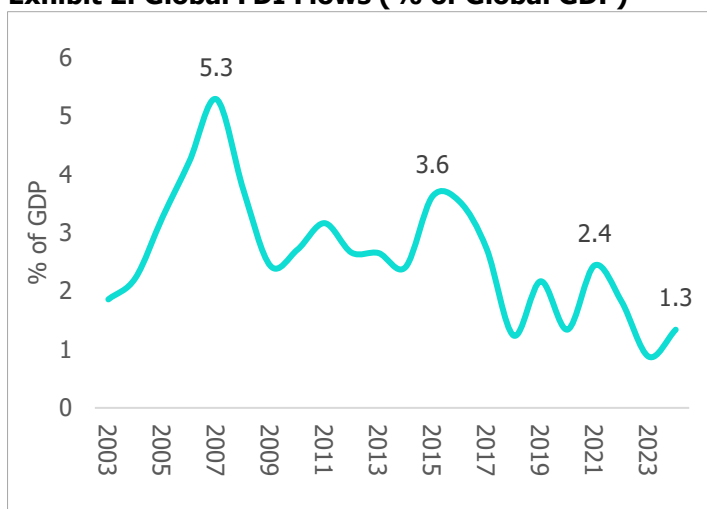
Source: CEIC, CareEdge

A foreign company’s decision to reinvest or repatriate profits typically reflects its strategic priorities, investment model, and long-term capital allocation philosophy. Similarly, growing outward FDI indicates access to foreign resources and markets. It also helps foster competitiveness and productivity among firms through ‘reverse technology spillovers’. Reverse technology spillovers refer to the process through which a firm’s overseas investments enable the flow of technology, expertise, and innovation back to its home country. Neither profit repatriation nor outward FDI is inherently negative, but they continue to weigh on overall net FDI inflows.

## Global FDI Has Stayed Subdued, Accompanied by Structural Changes in Composition Post-Pandemic

While analysing India’s FDI flows, it is critical to understand the global trends, as that will help us better understand India’s position. Given the heightened economic and geopolitical uncertainties, globally, FDI flows have been weak in the last few years. Globally, FDI flows have continued to lag GDP growth. The ratio of global FDI flows to GDP declined to 1.3% in 2024, down from the post-pandemic peak of 2.4% in 2021. (Exhibit 2). In fact, the erosion in FDI’s share of global GDP has been a persistent trend since the 2008 Global Financial Crisis, when the ratio peaked at 5.3% in 2007. Global FDI (% of GDP) averaged 3.8% during 2005–2009, before falling to 2.7% between 2010–2014, a level that remained broadly unchanged through 2015–2019. However, in the post-pandemic period

**Exhibit 2: Global FDI Flows (% of Global GDP)**



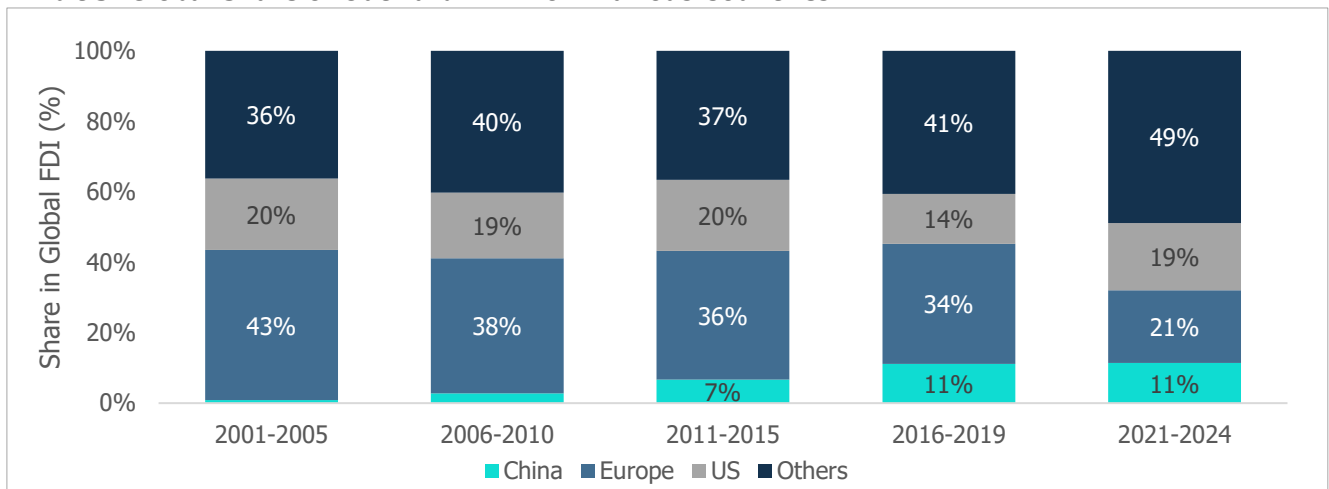
Source: World Bank, CareEdge

Global FDI (% of GDP) averaged 3.8% during 2005–2009, before falling to 2.7% between 2010–2014, a level that remained broadly unchanged through 2015–2019. However, in the post-pandemic period

(2020–2024), the share has moderated further to around 1.5%, reflecting rising protectionism and growing concerns over supply-chain resilience.

In the last two decades, the composition of global FDI has also changed. There has been a decline in Europe's share of global outward FDI and stagnation in flows from the United States, reflecting shifting global investment dynamics (Exhibit 3). The global share of outward FDI from Europe has declined consistently from a 20-year pre-pandemic average of around 39% (2000–2019) to 21% during the post-pandemic period (2021–2024) (Exhibit 3). The United States' share of global outward FDI has remained largely stable at about 19-20% in both the pre- and post-pandemic years (Exhibit 3). Interestingly, China, over the years, has witnessed a significant rise in its share of global outward FDI. Its share has risen from almost negligible levels in the early 2000s to an average of ~11% in the post-pandemic years. As China's domestic market has matured, its firms have increasingly invested in international markets to tap into new growth opportunities—a trend further reinforced by a slowing domestic economy. Amid rising geopolitical tensions and ongoing trade frictions with major economies such as the US and Europe, China is expected to intensify its outward investments in other regions to safeguard its long-term economic interests.

**Exhibit 3: Global Share of Outward FDI from Various Countries**



Source: UNCTAD, CareEdge

Countries benefiting from the China+1 strategy—such as Vietnam and Mexico, as well as resource-rich nations in Africa—have experienced significant growth in inbound foreign direct investment (FDI). Among developing regions, Africa saw a sharp rise in global FDI net inflows (gross FDI minus repatriation) over the past three years, with the average share rising from 2.8% in pre-pandemic years (2017-2019) to 4.7% in post-pandemic years (2022-2024). Even other emerging markets like Brazil (average share of 4.5% in post-pandemic years vs 4.1% in pre-pandemic years), Vietnam (1.3% vs 1%), Indonesia (1.6% vs 1.4%) and Mexico (2.5% vs 2.2%) saw their global FDI share rise. India's share in global FDI inflows fell to 2.4% from 2.9% largely due to higher repatriation.

**FDI flows into India**

After remaining broadly stagnant at around USD 71 billion in FY23 and FY24, gross FDI inflows rose by 13% to USD 81 billion in FY25. However, profit repatriation and FDI outflows from India—averaging USD 48 billion and USD 22 billion, respectively, in FY24 and FY25—increased sharply, rising by 69% and 58%, respectively, compared with the average levels of the preceding three years (FY21–FY23). This substantial rise in profit repatriation and outflows significantly weighed on net FDI inflows, which fell to just USD 10 billion in FY24 and further to USD 1

billion in FY25. UNCTAD reported that in 2024, India saw increased divestment of stakes by foreign companies to local partners. Some of the major divestments included Walt Disney partially exiting its operations in India through a USD 3 billion merger of Star India with Viacom 18 Media, creating a joint venture majority owned by Indian firms. Several pharmaceutical operations in India owned by international investors were also sold to local firms, such as Novartis, which sold a major stake in its Indian arm.

In H1 FY26, Gross FDI inflows increased by 16% YoY to USD 50 billion, while profit repatriation declined by 5% YoY to USD 26 billion. FDI outflows also moderated sharply, rising by 34% YoY in H1 FY26 compared with an 87% YoY increase in H1 FY25. As a result of the decline in profit repatriation and the moderation in outflows, net FDI inflows strengthened to USD 7.6 billion in H1 FY26.

Traditionally, Singapore (30% share in FY25), Mauritius (17%), the United States (11%), the Netherlands (9%), the UAE (9%) and Japan (5%) have been the major sources of FDI equity flows into India. Much of these inflows are routed through various tax havens and are governed by tax considerations in each jurisdiction. Nevertheless, country-wise data shows that FDI shares from the United States (13% in FY22–FY25 vs. 7% in FY16–FY19), the UAE (6.1% vs. 2.1%), and the Netherlands (8.4% vs. 7.4%) increased notably in the post-pandemic years. Conversely, Japan's share of FDI equity flows into India (4.6% vs. 7%) declined during this period.

#### Exhibit 4: FDI Equity Inflows by Sector

	Share (%)		Growth (YoY, %)	
	FY24	FY25	FY24	FY25
Services Sector	15%	19%	-24%	41%
Computer Software & Hardware	18%	16%	-15%	-2%
Trading	9%	8%	-19%	8%
Non-Conventional Energy	8%	8%	51%	7%
Construction & Infrastructure Activities	10%	4%	149%	-47%
Automobile Industry	3%	3%	-20%	4%
Drugs & Pharmaceuticals	2%	2%	-48%	-16%
Chemicals (Other Than Fertilizers)	2%	2%	-54%	26%
Telecommunications	1%	1%	-60%	165%

Source: Department for Promotion of Industry and Internal Trade of India, CareEdge. Services sector includes Financial, Banking, Insurance, Non-Financial / Business, Outsourcing, R&D, Courier, Tech. Testing, Analysis, and Others.

In FY25, the services sector emerged as the largest recipient of FDI equity, attracting 19% of total inflows, followed by the computer software and hardware sector at 16% and the trading sector and non-conventional energy sector at 8% each (Exhibit 4). Inflows into the services sector rose by 41% to USD 9.4 billion in FY25, up from USD 6.6 billion in FY24. Among other major sectors, trading, non-conventional energy, automobiles, and chemicals (excluding fertilisers) recorded growth in FY25. However, FDI inflows to the drugs and pharmaceuticals and construction sectors contracted in FY25. According to UNCTAD, India has witnessed strong growth in greenfield projects within the manufacturing sector, driven by investments in semiconductors, electronics and electrical equipment, EV components, and basic metals. Greenfield investments in digital industries—such as cloud services and data centres—have also experienced a significant uptick.

State-wise, Maharashtra accounted for the highest proportion of FDI equity inflows in FY25 at 39%, with Karnataka (13%), Gujarat (11%), Tamil Nadu (7%), Haryana (6%), and Telangana (6%) following. Notably, Maharashtra, Haryana, and Tamil Nadu registered robust growth in FDI of 30%, 51%, and 65% (YoY) respectively in FY25.

India has also emerged as a top global investor, with outward investments rising to an average of USD 20 billion over the last three years (FY23-FY25), up from USD 8 billion in the pre-pandemic years (FY15-FY19). UNCTAD's 2025 World Investment Report noted that a 20% rise in greenfield project announcements by Indian investors, which placed India among the world's top 10 investor countries in 2024. In FY25, India witnessed a significant surge in outbound direct investments, with the outbound investments (loans and equity) to both manufacturing and services sectors more than doubling (118% YoY growth in each sector) to USD 6.6 billion and USD 18.6 billion, respectively. Financial, insurance, and business services, along with Wholesale, retail trade, restaurants, and hotels, account for the majority (91%) of outbound investment in the services sector. Over the years, Indian companies expanded their global footprint, especially in Europe, South America and Africa, investing across diverse industries such as telecommunications, automotive, mining, energy, defence, pharmaceuticals, ports and steel.

**Attractive Returns on FDI in India**

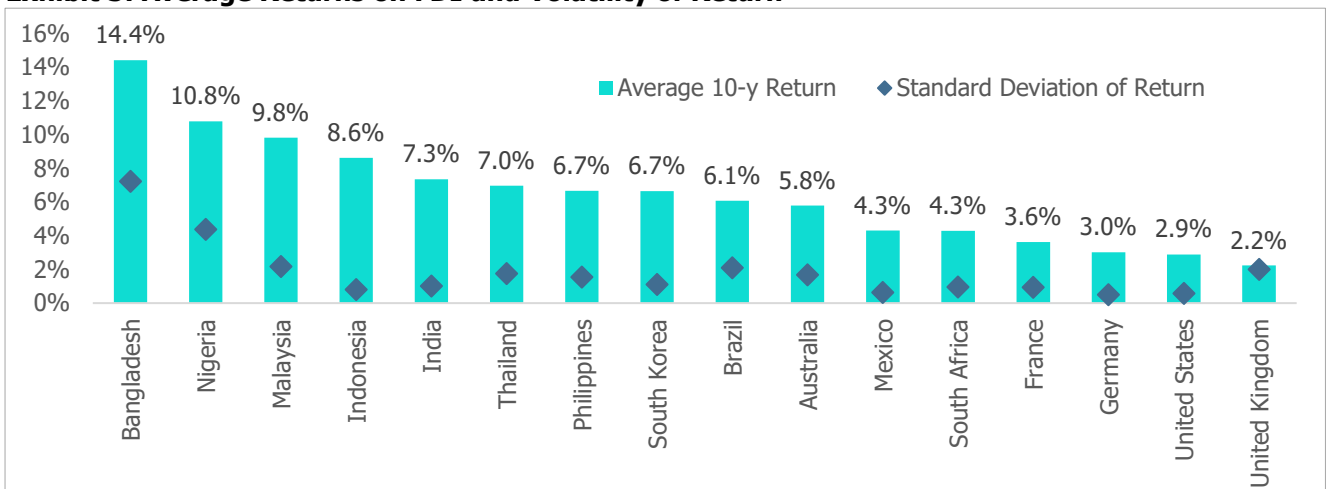
Despite a slowdown in net FDI inflows amid increased profit repatriation, our analysis indicates that the return on inward FDI in India remains robust. We have estimated returns on inward FDI as FDI equity income receipts expressed as a percentage of the total inward FDI stock (inspired by the OECD and Eurostat methodologies).<sup>1</sup>

To account for the time lag between investment and income generation, we use a two-year lag in the base stock of inward FDI positions. It is important to note that the timing and magnitude of returns can vary depending on factors such as the sector, scale of the project, and the host country's market and regulatory environment.

We have calculated FDI returns as follows:

$$FDI\ Return_t = Direct\ Investment\ Income_t \div Inward\ FDI\ Stock_{t-2}$$

**Exhibit 5: Average Returns on FDI and Volatility of Return**



Source: CareEdge Estimates, CEIC, IMF

<sup>1</sup> [OECD's Methodology](#)  
[Eurostat's Methodology](#)

**Exhibit 6: Risk-Adjusted Return\***



Source: CareEdge Estimates, CEIC, IMF. \*Risk-Adjusted Return = Absolute Return divided by Standard Deviation

In addition to analysing average FDI returns, we also examine the volatility of returns over the past decade, measured by the standard deviation of annual FDI returns. This analysis is further extended to compute the risk-adjusted return, defined as the ratio of the 10-year average return to its standard deviation. Assessing risk-adjusted returns is important, as some economies with higher nominal returns may also exhibit greater volatility, which can significantly influence the overall attractiveness and stability of FDI returns. The risk-adjusted return represents the return earned per unit of risk and serves as a rough analogue to the Sharpe ratio for FDI returns.

Our analysis indicates that India’s average return on inward FDI remains robust at 7.3%, outperforming many emerging and developed economies. While a few emerging markets, such as Bangladesh, Nigeria, and Malaysia, report higher average returns, these are accompanied by significantly greater volatility (Refer Exhibit 5). In the case of certain economies, such as Bangladesh, the data is skewed by a higher historical return that has been declining sharply in recent years. Additionally, major economies such as China have been excluded from the study due to insufficient data. Detailed data on average individual countries’ returns and standard deviations are provided in Annexure 1.

When we look at risk-adjusted return—measured as the ratio of absolute return to standard deviation—India ranks second only to Indonesia among the major countries analysed (Refer Exhibit 6), highlighting the relative stability and attractiveness of India’s FDI performance. That said, this analysis is based solely on FDI performance from 2014 to 2023. Looking ahead, India’s strong economic growth, policy continuity, fiscal discipline, large domestic market, and favourable demographics are expected to support the sustainability of healthy FDI returns in the coming years.

**Conclusion**

For India, while gross FDI inflows have remained healthy, net inflows have moderated due to higher profit repatriation and increased outward FDI. We feel the average FDI returns in India remain attractive, with the country ranking among the top countries on a risk-adjusted return basis. Emerging sectors like semiconductors, electric vehicles, battery storage, and data centres are becoming increasingly attractive destinations for FDI.

Looking ahead, India's ability to attract stable, diversified FDI will be strengthened by continued reforms to its financial and regulatory frameworks and by a focus on improving infrastructure and reducing logistics costs. Recent factor-market reforms—such as the introduction of the new and simplified labour code—also represent a step in the right direction. Further, there is a need for deeper global linkages and a pragmatic approach to engaging new investment partners, while continuing to enhance the ease of doing business. In an increasingly dynamic global investment environment, it's noteworthy that India is also witnessing its domestic firms gradually expanding abroad, taking measured steps toward establishing a stronger presence in the global competitive landscape.

## Annexure 1

	Average 10-y Return	Standard Deviation of Return
Botswana	18.50%	10.9%
Bangladesh	14.40%	7.2%
Nigeria	10.78%	4.4%
Malaysia	9.82%	2.2%
Peru	9.79%	2.7%
Argentina	9.07%	2.0%
Indonesia	8.61%	0.8%
India	7.34%	1.0%
Thailand	6.97%	1.8%
Philippines	6.65%	1.6%
South Korea	6.65%	1.1%
Chile	6.61%	1.4%
Egypt	6.35%	1.5%
Brazil	6.08%	2.1%
Australia	5.78%	1.7%
Colombia	5.21%	2.3%
Sweden	5.15%	0.5%
Greece	5.05%	1.7%
Netherlands	4.52%	0.7%
Mexico	4.31%	0.7%
South Africa	4.28%	1.0%
Italy	3.96%	1.4%
Portugal	3.85%	0.8%
Spain	3.77%	0.6%
France	3.62%	1.0%
Canada	3.53%	0.8%
Germany	3.02%	0.5%
Morocco	2.94%	0.8%
United States	2.89%	0.6%
Ecuador	2.63%	1.2%
United Kingdom	2.23%	2.0%
Turkey	2.03%	0.6%

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