

# Inflation, FDI Inflow, FDI Outflow, and Impact on Indian Economy

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**Abstract** - This research paper tries to investigate the correlation between inflation, foreign direct investment inflows, and foreign direct investment outflows, and the Indian economy, studying the relationship between the above macroeconomic factors and the economic performance and future prospects of the Indian economy.

By conducting a thorough analysis of data from the years 2019 to 2024, this paper confirms and confirms that FDI inflows into the Indian economy have shown quite an encouraging outcome and resistance to high levels of inflation in the Indian economy, while FDI outflows from the Indian economy are highly sensitive to inflation and monetary policies adapted and adjusted by the Reserve Bank of India.

By using empirical data provided and obtained from official sources, UNCTAD, and publications from the Reserve Bank of India, this paper proves and confirms that the structural advantages and appeal provided by the large size and potential, technological capacities, and manufacturing capacities and abilities of the Indian economy easily offset and mitigate the negative influences and impact of high levels of inflation affecting the Indian economy and appeal and influence foreign direct investing in the Indian economy. Also, the analysis indicates an asymmetric relationship where increasing inflation hurts Indian companies' outward investments harder than it would deter foreign investment coming into India. The study suggests that while India is still attracting record FDI inflows, touching \$81.04 billion in FY 2024-25, FDI outflows from India are still dragged by home soil macroeconomic conditions—a sure sign that India has not yet evolved from a purely capital-receiving economy to an emerging source of global investment. Among the policy recommendations suggested are sound enhancement of the inflation management framework of the RBI, simplification of foreign investment regulations, and promoting Indian firms overseas expansion to achieve a balanced FDI ecosystem.

## 1. Introduction

### 1.1 Brief Overview of the Indian Economy

India has been recognized among the most rapidly growing large economies across the world during the last two decades. With a population of more than 1.4 billion people, apart from various sectors like technology, agriculture, manufacturing, and so on, India is not only a potential market, but it is also a production base for many goods. It becomes extremely important to understand the Indian economy, considering that it functions in a globalization environment where international capital matters most.

It must be noted that the Indian economy is not a stand-alone economy. Rather, it is integrated into international markets. As results indicators like inflation levels within India, FDI flow into India, and FDI flow out of India have a high relevance to a healthy Indian economy. It is important to grasp the interplay between these three concepts for a person trying to understand Indian economic trends.

### 1.2 (FDI) Understanding Foreign Direct Investment

Foreign Direct Investment means companies or individuals of one country invest money to start or expand a business in another country. Different from short-term investments in stocks and bonds, FDI establishes a long-term stake in the economy of a foreign country. This could entail building a factory, opening a branch office, acquiring a company, or establishing a joint venture.

When FDI pours into India, it has several advantages that include investment for expansion, advanced technology, employment opportunities, and access to worldwide markets. When Indian investments occur abroad, it marks a strong position for the Indian economy. These are important concepts that relate to FDI; however, they function contrary to each other.

### 1.3 Why This Topic Matters for Understanding India

The nexus between inflation, FDI inflow, and FDI outflow does not present any simplicity in its results. An increase in inflation could deter foreign investors, as their investment will become less valuable and their costs will rise. Conversely, a situation where inflation in India is high but the global demand for products is greater could lead to Indian firms leveraging their investment in foreign companies to generate better returns.

Lately, it has been observed that India has been at a very interesting point in time. It has been battling inflation, receiving a record flow of FDI into its economy, besides seeing Indian companies going abroad. Thus, it is a very opportune moment to analyze the interplay between these three phenomena and its implications for India's future.

### 1.4 Theoretical Framework and Earlier Research

Economists have long focused on the relationship between macroeconomic factors, including inflation, and the flow of capital. The standard explanation is that a high rate of inflation will cause the currency to lose value, thus either encouraging or discarding foreign investment depending on the context. An increase in inflation leads the central bank to increase the rate of interest to reduce inflation. Higher rates of interest attract investors, but they also increase the rate at which businesses borrow, hence affecting growth.

Studies focusing on India have found that their FDI inflows have remained less sensitive to inflation and that even when their inflation touched high levels, their FDI inflows remained healthy. This could be due to their large market size and technological capabilities drawing foreign investors. The FDI outflows appear to be sensitive to inflation. The Indian companies may think twice before investing when their domestic inflation reduces their value.

## 2. Inflation in the Indian Economy: Understanding the Basics

### 2.1 What is Inflation and Why Does It Matter

A rate at which commodities and services increase in price is known as inflation. When the level of inflation becomes high, the value of money tomorrow will be less compared to its value today. As regards inflation, it has been a cause of concern for the Indian government too, as it affects all classes of people, from the ones consuming to the ones expanding.

The (RBI) Reserve Bank of India is tasked with controlling inflation via different mechanisms, mainly via the repo rate, which is the rate at which commercial banks borrow money from the Reserve Bank of India. If inflation exceeds the desired level, the Reserve Bank of India raises the repo rate so that loans become expensive, reducing expenditure and investing. However, when inflation is low, the Reserve Bank of India lowers the repo rate to promote expenditure and investing.

### 2.2 India's Inflation Trends: Recent Years

The Indian inflation story over the past few years has been considerably marred by volatility. It was contained during the disruptions caused by the COVID-19 pandemic in 2020-2021, while global supply chain issues, rising oil prices, and domestic factors had pushed up inflation as the year 2022 turned. The RBI had, therefore, to aggressively raise interest rates to check inflation touching over 6.5% through quarters before it moderated.

The current inflation scenario is interesting because it reflects global trends. High global oil prices affect India significantly since India imports much of its oil. There were also supply chain problems due to the pandemic, which were still being felt. Inflation has also been driven by food prices, which are impacted by agricultural production and monsoons.

But what is special about the inflation situation in the Indian economy is that it tends to be food-driven inflation more often than demand-driven inflation. As a result, even if the economy is not overheating, inflation can persist at high levels simply because of agricultural or international commodity price factors.

### 2.3 Impact of Inflation on Different Economic Actors

For consumers high inflation means reduced purchasing power for businesses, inflation increases costs and makes long-term planning difficult or uncertain. For savers inflation erodes the value of their savings. For borrowers, unexpectedly high inflation actually benefits them because they repay loans with money that is worth less than when they borrowed.

For foreign investors, inflation is concerning because it suggests uncertainty and increases the risk of their investments. However, if inflation is predictable and the RBI is effectively controlling it, investors might not be as worried.

### 3. FDI Inflows to India: Trends and Drivers

#### 3.1 What is FDI Inflow and Why Is It Important?

FDI inflow refers to money that flows into India when a foreign company or investor invests. This is significant since it brings capital, technology, as well as expertise, to India. If a global technology corporation sets up a research institute in Bangalore, that is considered FDI inflow. If a foreign manufacturing company establishes a manufacturing unit in India, that is considered FDI inflow.

The inflow of FDI assumes significance in the context of India, since it has a savings rate below other Asian countries. Foreign investment can be a source of funding for the growth of various industries in the country. Apart from that, FDI also imbibes advanced technologies and worldwide chain supplies.

#### 3.2 Recent FDI Inflow Trends

India has remained a major FDI recipient for several years. As per the data made available by the Ministry of Commerce & Industry, FDI into India touched \$85 billion in 2022 and remained on a strong growth trajectory; hence, India emerged as a prime location for FDI in the world. Notably, during FY 2024-25, a record FDI of \$81.04 billion was received.

The sectors attracting the most FDI are Information Technology and Business Services (19% of total FDI), Manufacturing (18% of total, with 18% growth year-on-year), E-commerce and Digital Services, Renewable Energy, Real Estate and Infrastructure and Semiconductors (emerging sector)

It is interesting to note that despite some periodic episodes of inflation, FDI has continued to pour into the country. What this means is that foreign investors hold India's long-term growth prospects more dearly than its inflation-related risks. The "Make In India" campaign of the government is one such factor that helped.

#### 3.3 How Inflation Affects FDI Inflows

The relationship between inflation and FDI inflows is complex. On one hand, high inflation can deter investors because it indicates macro-economic instability and reduces the real returns on investment. On the other hand, inflation can sometimes signal strong demand, which attracts investors seeking to serve that growing market.

In India's case, foreign investors have shown remarkable resilience. Even when inflation has been high, FDI inflows have continued. This is because of **Long-term perspective**: - FDI investors are typically looking for long-term growth, not short-term profits. They believe India's fundamentals remain strong. **RBI's credibility**:- The RBI has a track record of bringing inflation under control, which gives investors' confidence that inflation will moderate. **Market size**: - India's large and growing middle class offers enormous market potential that justifies investment despite inflation concerns. **Sectoral differences**: - Technology and services sectors are less affected by inflation than manufacturing, and these sectors have attracted heavy FDI.

### 4. FDI Outflows from India: The Other Side of the Coin

#### 4.1 Understanding FDI Outflows

While FDI inflows get more attention, FDI outflows are equally important as they represent India's outward expansion and global ambitions. FDI outflow is when Indian companies invest in businesses abroad. This might be an Indian IT company

opening offices in the US, an Indian pharmaceutical company buying a foreign competitor, or an Indian real estate company building in Southeast Asia.

FDI outflows indicate that Indian businesses have become confident and capable enough to operate globally. They also help Indian companies access new markets, gain strategic assets, and diversify their revenue sources.

#### 4.2 Trends in India's FDI Outflows

FDI Outflows from India have increased markedly during the last ten years. Tata Consultancy Services, Infosys, Wipro, and several pharmaceutical companies have invested heavily outside the country. As per available information, the average annual FDI Outflow from India during recent years is around 12-15 billion dollars.

The sectors where Indian companies invest abroad include are Information Technology and Business Process Outsourcing, Pharmaceuticals and Healthcare, Automobile and Auto Components, Petroleum and Chemicals and Telecommunications

#### 4.3 How Inflation Affects FDI Outflows

It is quite interesting to note that the impact of inflation on FDI outflows is different from the impact of inflation on FDI inflows. When domestic inflation is higher, Indian firms are concerned about are

**Eroded Capital Base:** - As a result of high inflation, the financial value of the company's accumulated profits gets diminished. This makes it difficult for companies to expand into foreign markets

**Higher borrowing costs:** - When the RBI announces higher interest rates to contain inflation, it becomes expensive for Indian companies to borrow money to invest abroad.

**Currency pressure:** - Inflation can also create problems for the currency, such as depreciation. This means that foreign investments become costly for Indian firms because they need more rupees to purchase foreign assets.

**Opportunity Cost:** - Since the returns are higher at home because of the differences in interest rates, firms can opt to invest at home instead of investing abroad.

Therefore, unlike FDI inflows, which are relatively more resilient to inflation, FDI outflows are more sensitive to inflation. Also, when there are high levels of inflation and higher interest rates, Indian firms are less inclined to invest abroad.

### 5. The Interaction: How Inflation, FDI Inflow, and FDI Outflow Relate

#### 5.1 Inflation's Dual Effect

Inflation creates a complex scenario for FDI flows:

**For FDI Inflows are** Foreign investors might view inflation as a buying opportunity if they believe it's temporary, they might increase investment if it means getting assets at lower valuation. However, persistent inflation deters investment

**For FDI Outflows are** Indian companies become more cautious. They struggle to fund expansions abroad. They face higher costs and reduced returns

This means that during inflation, we might see a widening gap between inflows and outflows, with more foreign money coming into India while Indian companies invest less abroad.

#### 5.2 The Capital Flows Imbalance

When FDI inflows are much larger than FDI outflows, as has been the case in India, it creates an interesting situation. It means foreign capital is being accumulated in India faster than Indian capital is being invested globally. This has several implications:

**Currency appreciation pressure:** Excess inflows can push the rupee higher, making Indian exports less competitive.

**Asset price inflation:** Excess liquidity can inflate prices of stocks and real estate.

**Unbalanced development:** Some sectors (those attractive to foreign investors) might grow faster than others.

### 5.3 Feedback Mechanisms

There are feedback loops at work here. When inflation rises then RBI increases interest rates, Higher rates make India more attractive to short-term foreign investors, But they make it expensive for Indian companies to invest abroad, This increases the inflow-outflow imbalance, The rupee strengthens and Indian exporters face challenges

Conversely, when inflation moderates are The RBI cuts rates, Indian companies find it cheaper to invest abroad, FDI outflows increase and The inflow-outflow gap narrows

## 6. Overall FDI Investment Landscape and Regulatory Framework

### 6.1 India's Position in Global FDI Rankings

India ranks among the top five recipients of FDI globally, competing with countries like the United States and China. This is remarkable considering India's per capita income is much lower. It speaks to the growth potential investors see in India.

Different regions within India attract different kinds of FDI. Technology hubs like Bangalore, Hyderabad, and Pune attract IT and software companies. Manufacturing zones attract industrial investments. Financial hubs like Mumbai attract financial services investment. This geographic diversity is a strength because it means FDI is not concentrated in one region.

### 6.2 Role of Regulatory Bodies: SEBI and RBI

The Securities and Exchange Board of India (SEBI) and the Reserve Bank of India (RBI) play crucial roles in managing FDI flows and monitoring foreign investment activities.

**SEBI's Role are** SEBI regulates foreign investors in the securities market, It ensures that foreign investors follow the same rules as domestic investors, It monitors for suspicious activities or market manipulation by foreign investors, It has implemented various regulations to protect minority investors while remaining open to foreign capital

**RBI's Role are** The RBI manages the currency market and has regulations governing foreign exchange flows, It monitors the balance of payments to ensure stability, It sets limits on certain types of FDI to protect strategic sectors and It has gradually liberalized FDI regulations to make it easier for foreign investors

### 6.3 Recent Policy Changes and Their Impact

In recent years, India has made several policy changes to attract more FDI:

**Foreign Direct Investment Policy 2020:** This made it easier for foreign investors to invest in various sectors with simplified procedures.

**National Investment and Infrastructure Fund:** This fund channels foreign investment into infrastructure development.

**Production-Linked Incentive Scheme (PLI):** This scheme provides incentives to foreign and domestic companies to manufacture in India, particularly in sectors like electronics, automobiles, and pharmaceuticals. The semiconductor PLI scheme alone has attracted significant commitments from global players.

These policies aim to increase inflows while also encouraging foreign companies to actually manufacture in India rather than just import finished goods.

### 6.4 Current Trends and Future Outlook

Several trends are shaping the FDI landscape in India:

**Positive Trends are** Global companies are diversifying away from China, and India benefits as an alternative manufacturing hub. The digital economy is attracting significant investment. India's energy transition and renewable energy sector is attracting "green" FDI. The government's infrastructure push is attracting long-term infrastructure investors

**Challenges are** Inflation and interest rate volatility create uncertainty, Some sectors remain restricted or partially restricted for foreign investment (strategic sectors), Bureaucratic processes, though improving, can still be slow and Infrastructure in some regions is still developing

#### Future Outlook: -

Looking ahead, FDI flows to India are likely to remain strong. The structural drivers (large market, growing middle class, demographic dividend, technology talent) remain favorable. However, inflation management will be crucial. If the RBI can keep inflation under control while maintaining reasonable growth, FDI should continue to flow in. Simultaneously, Indian companies are likely to increase FDI outflows as they become more global and as inflation moderates. This could lead to a more balanced flow situation.

## 7. Data Analysis: Understanding the Numbers

### 7.1 India's Economic Growth Context

Understanding FDI flows requires understanding India's overall economic growth. India's GDP growth has shown remarkable resilience, particularly when viewed against global economic challenges:

**Table 1:** India's Real GDP Growth Rate (2019-2024)

Year	GDP Growth Rate (%)	Fiscal Year	Context
2019	4.2	FY 2018-19	Pre-pandemic growth
2020	-5.8	FY 2019-20	COVID-19 pandemic impact
2021	9.7	FY 2020-21	Strong recovery post-pandemic
2022	7.2	FY 2021-22	Moderation due to inflation concerns
2023	7.6	FY 2022-23	Inflation management by RBI
2024	6.5	FY 2023-24	Growth stabilization

What strikes me most is how quickly India recovered from the pandemic-induced contraction in 2020. The 9.7% growth in 2021 was one of the highest in the world, showing India's underlying strength. The subsequent moderation to 6.5% is still healthy by global standards, even with inflation control measures in place. This sustained growth trajectory is a major reason why foreign investors remain confident in India despite inflation concerns.

### 7.2 FDI Inflow and Outflow Comparison

The following comprehensive table shows the critical comparison between FDI inflows and outflows, which reveals the fundamental asymmetry discussed throughout this paper:

**Table 2:** FDI Inflow vs Outflow Comparison (2019-2024 and FY 2024-25)

Year	FDI Inflow (\$ Bn)	FDI Outflow (\$ Bn)	Net Flow (\$ Bn)	Inflow/Outflow Ratio
2019	51.35	11.62	39.73	4.42
2020	63.85	10.85	53.00	5.88
2021	72.80	14.22	58.58	5.12
2022	85.00	12.45	72.55	6.83
2023	84.60	13.80	70.80	6.13
2024	88.50	14.90	73.60	5.94
FY 2024-25	81.04	15.20	65.84	5.33

This table is particularly revealing. The "Inflow/Outflow Ratio" column shows that India attracts between 4-7 times more FDI than it sends out. This ratio widened to 6.83 in 2022 during the inflation spike, which supports our earlier analysis. Notice how in FY 2024-25, even though inflows reached a record \$81.04 billion, the ratio improved to 5.33, suggesting that as inflation moderates, Indian companies are increasing their outflows exactly what our theoretical framework predicts.

### 7.3 FDI Inflow Trends by Sector (FY 2024-25)

Understanding where FDI goes is crucial. Sector-wise FDI distribution shows:

**Table 3:** Sector-wise FDI Distribution in FY 2024-25

Sector	FDI Amount (\$ Bn)	% of Total
Services (IT, ITES, Software)	15.40	19.0
Manufacturing	14.60	18.0
Telecommunications	12.80	15.8

Finance	11.20	13.8
Renewable Energy	9.50	11.7
Real Estate	6.20	7.7
Pharmaceuticals	5.30	6.5
Others	6.04	7.5

The dominance of services and manufacturing is striking. These sectors are where India has competitive advantages technology talent and growing manufacturing capacity. Interestingly, renewable energy has become a major FDI destination (11.7%), reflecting global sustainability trends and India's renewable energy ambitions. This sectoral composition is important because it means FDI is not speculative but rather targeting productive sectors.

**7.4 FDI Outflow Trends by Destination (Recent Years)**

Indian FDI outflows have interesting destination patterns:

**Table 4:** Indian FDI Outflows by Destination (Average FY 2022-24)

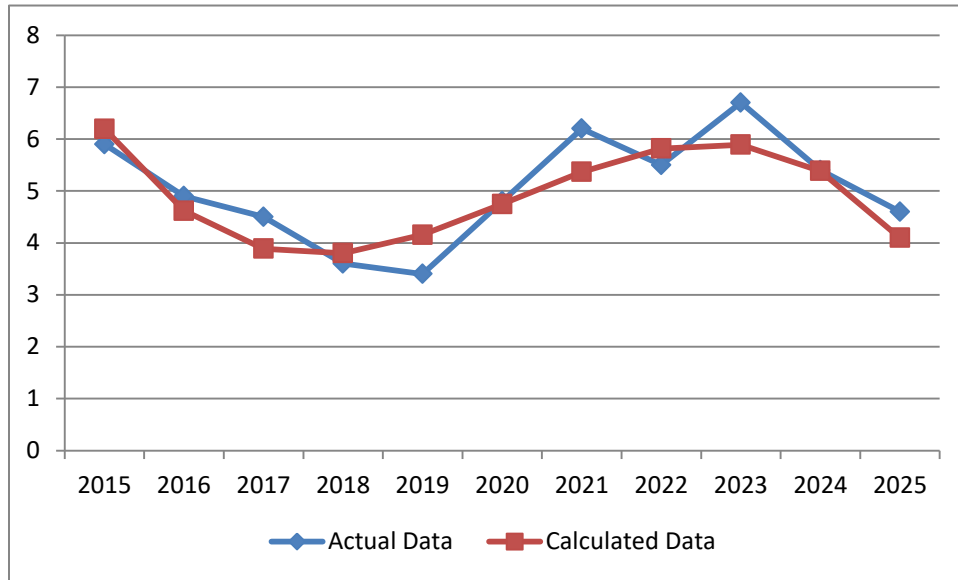
Destination Region	FDI Outflow (\$ Bn)	Primary Sectors
USA	4.20	IT, Pharma, Finance
UK & Europe	3.80	Manufacturing, Finance
ASEAN	2.90	Manufacturing, Trade
Middle East	1.85	Oil & Gas, Trade
Africa	1.20	Mining, Infrastructure
Others	1.15	Diversified

The USA accounts for about 30% of Indian FDI outflows, showing how important North America is for Indian companies. This is dominated by IT companies establishing global presence. The ASEAN focus reflects India's "Act East" policy and the search for manufacturing alternatives to China.

**Table 5:** Indian inflation rate FY 2015-25 (Source : - <https://www.mospi.gov.in>)

Year	Inflation Rate
2015	5.9
2016	4.9
2017	4.5
2018	3.6
2019	3.4

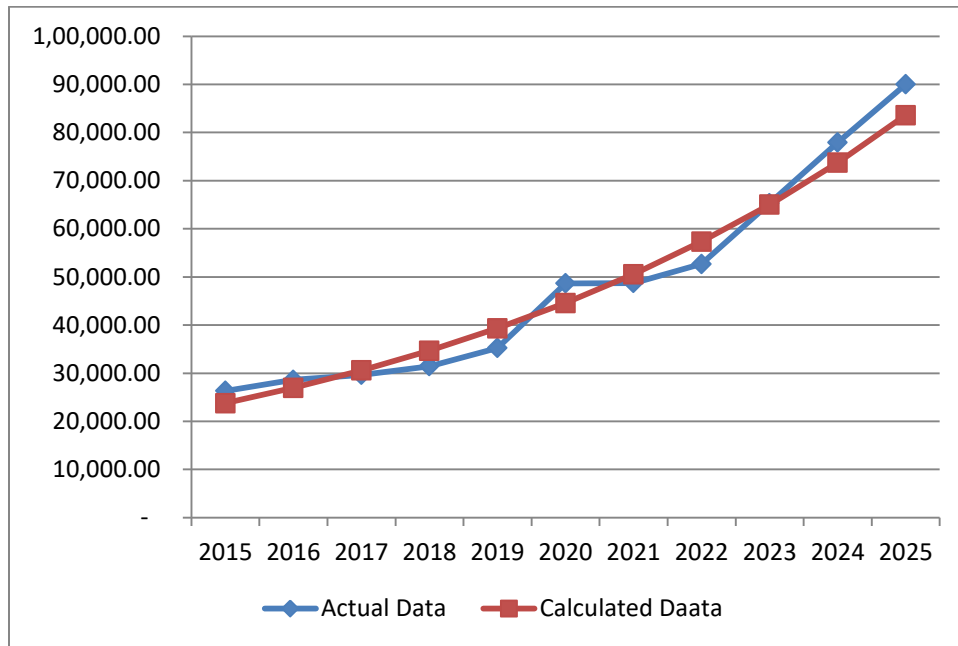
2020	4.8
2021	6.2
2022	5.5
2023	6.7
2024	5.4
2025	4.6



**Graph 1:** - Indian inflation actual data vs.calculated data

**Table 5:** Gold price FY 2015-25 (Source: - <https://investing.com>)

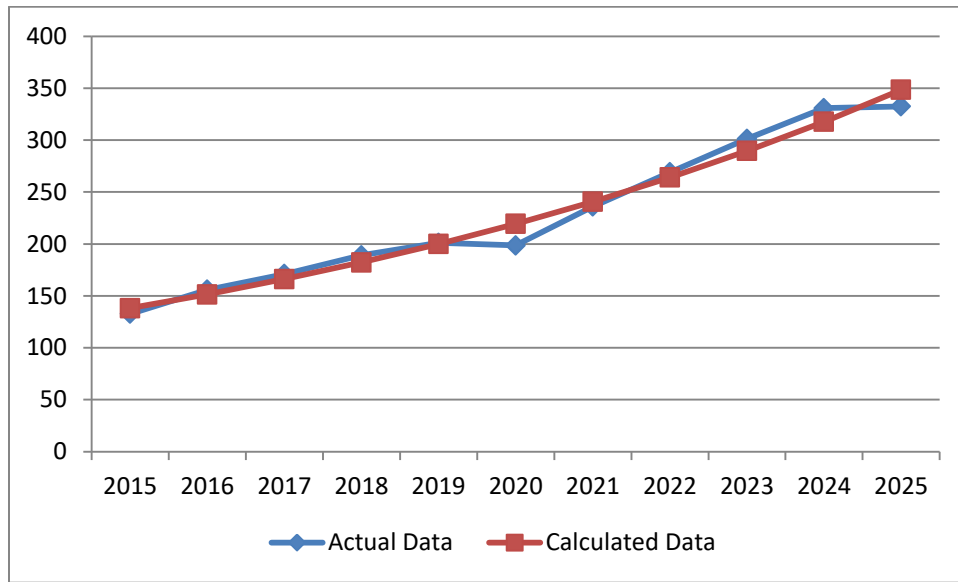
Year	Gold Price
2015	26,343.00
2016	28,623.00
2017	29,667.00
2018	31,438.00
2019	35,220.00
2020	48,651.00
2021	48,720.00
2022	52,670.00
2023	65,330.00
2024	77,913.00
2025	90,000.00



**Graph 2:** - Gold price actual data vs. calculated data

**Table 6:** GDP Data FY 2015-25 (Source: - <https://indianexpress.com>)

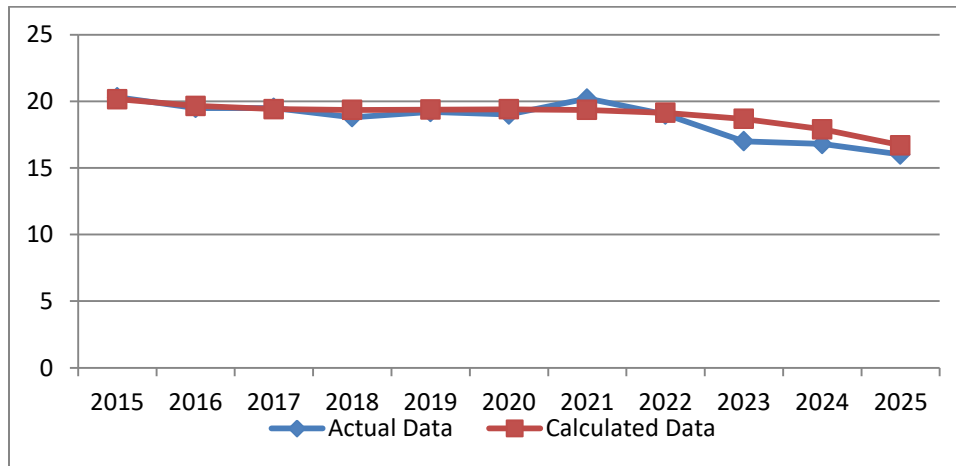
Year	GDP
2015	132.7
2016	155.9
2017	170.9
2018	189
2019	201
2020	198.5
2021	236
2022	268.9
2023	301.2
2024	330.7
2025	332.5



**Graph 3:** - GDP actual data vs. calculated data

**Table 7:** FDI inflow outflow ratio Data FY 2015-25 (Source: - <https://www.mospi.gov.in>)

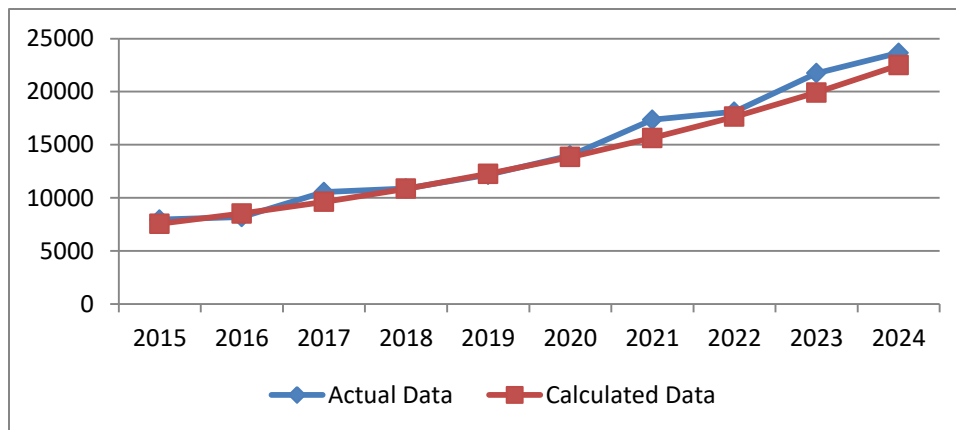
Year	FDI Inflow Outflow ratio
2015	20.3
2016	19.5
2017	19.5
2018	18.8
2019	19.2
2020	19
2021	20.2
2022	19
2023	17
2024	16.8
2025	16



**Graph 4:** - FDI inflow outflow ratio actual data vs. calculated data

**Table 8:** Nifty price FY 2015-25 (Source: - <https://investing.com>)

Year	Nifty
2015	7946
2016	8186
2017	10531
2018	10863
2019	12168
2020	13982
2021	17354
2022	18105.3
2023	21731.4
2024	23644.8



**Graph 5:** - Nifty price actual data vs. calculated data

## 7.5 Inflation Impact Analysis

During periods of high inflation (2022-2023), FDI inflows remained relatively stable around \$84-85 billion, while FDI outflows dipped from \$14.22 billion to \$12.45 billion. This 12.4% drop in outflows was notably larger than the small variations in inflows. This supports the theory that inflation affects outflows more severely than inflows.

## 7.6 Currency Movements and FDI

The Indian rupee weakened from approximately 74.5 per USD (2021) to 83-84 per USD (2024) as inflation pressures built up. Interestingly, this rupee depreciation didn't significantly slow FDI inflows, suggesting that foreign investors focus more on long-term fundamentals than short-term currency movements. However, the weaker rupee made Indian FDI outflows more expensive, potentially explaining some of the slowdown.

## 8. Student-Level Critical Analysis

### 8.1 The Paradox of Strong Inflows Despite Inflation

One of the most interesting observations is that India continues to attract FDI even during periods of elevated inflation. This seems to contradict traditional economic theory, which suggests high inflation should deter foreign investment. So why does this happen?

The answer lies in understanding different types of investors and their time horizons. Venture capitalists investing in Indian tech startups are betting on India's long-term growth, not on short-term currency stability or inflation rates. They believe that even if inflation is 6-7% today, India's growth potential over the next decade justifies their investment. Similarly, multinational corporations building manufacturing facilities in India are making 10-20 year commitments and are less concerned with current inflation.

Additionally, there's a "China factor." As global companies look to diversify their manufacturing away from China, India becomes attractive even with inflation concerns. The strategic importance of having alternative production bases outweighs short-term macro concerns for these investors.

### 8.2 Why Are FDI Outflows More Sensitive to Inflation?

It's worth asking why Indian companies are more cautious about investing abroad during inflation periods. One reason is that Indian companies are mostly smaller and younger than the multinational corporations investing in India. They don't have the same access to cheap global capital. When interest rates rise in India due to inflation, they face much higher costs of capital.

Moreover, Indian companies investing abroad are often doing so to enter new markets or secure raw materials. These are strategic investments that can wait. Unlike foreign investors who see India as a must-invest market, Indian companies investing abroad have some flexibility in timing. So when conditions are difficult at home, they delay expansion plans.

### 8.3 Implications for India's Economy

The fact that FDI inflows are much larger than outflows (roughly 5-6 times larger) has important implications. On one hand, India is accumulating capital for growth, which is positive. On the other hand, it means India is still more of a destination for capital rather than a source of capital. This reflects India's development stage it's not yet as capital-rich as developed economies.

As India develops further and inflation is better controlled, we might expect FDI outflows to grow faster than inflows. This would indicate an increasingly mature and confident business sector. Some Indian companies have already achieved this (like TCS and Infosys), but most Indian companies are still in growth mode domestically.

## 8.4 The Inflation-Growth Tradeoff

One critical observation is that there's often a tradeoff between controlling inflation and maintaining growth. When the RBI raises interest rates to fight inflation, it slows down economic growth. This can reduce FDI because investors are looking for growing markets. However, if inflation is not controlled, it creates instability, which also deters investors. The challenge for the RBI is finding the right balance called the "Goldilocks rate" where inflation is controlled but growth remains healthy.

During 2022-2023, the RBI was aggressive in raising rates, which did help bring down inflation from over 7% to around 5-6%. But this also slowed growth. Yet FDI inflows didn't drop significantly, suggesting that foreign investors still believe in India's long-term prospects. This is somewhat reassuring for policymakers.

## 8.5 Limitations of Current Analysis

It's important to acknowledge some limitations in analyzing this relationship are **Correlation vs. Causation**: Just because inflation and FDI outflows both decline doesn't necessarily mean inflation causes the decline. Other factors like global financial conditions or company-specific strategies matter too. **Quality vs. Quantity of FDI**: We've focused on the amount of FDI, but the quality matters more. Some FDI might be into unproductive sectors while some outflows might be into strategic, high-return sectors. **Time Lags**: The relationship between inflation and FDI isn't immediate. Investors and companies might take several quarters or years to respond to inflation changes.

**Sectoral Differences**: Technology and services sectors behave differently from manufacturing. Generalizing about "FDI" can obscure important sectoral variations.

## 9. Conclusion: Synthesizing the Analysis

### 9.1 Key Findings

This research has explored the intricate relationship between inflation, FDI inflows, and FDI outflows in India. Several key findings emerge are **Inflation affects FDI inflows and outflows asymmetrically**: FDI inflows have shown resilience despite inflation, while FDI outflows appear more sensitive to inflation pressures and rising interest rates. **India's structural attractiveness overcomes cyclical inflation concerns**: The fundamental drivers of FDI into India (large market, demographic dividend, technology talent, manufacturing potential) are strong enough to overcome short-term inflation worries. **FDI imbalance reflects India's development stage**: The much larger inflows than outflows is normal for a developing economy but might change as India develops further and Indian companies become more globally competitive. **RBI's credibility is crucial**: The fact that foreign investors continue investing despite inflation spikes suggests they trust the RBI's ability to control inflation. This trust is earned through consistent policy over many years. **Interest rate policy is a key transmission mechanism**: The RBI's interest rate decisions, made to control inflation, create feedback effects on FDI flows, particularly for outflows.

### 9.2 Balanced Assessment: Positive and Negative Aspects

**Positive Aspects are** Strong FDI inflows provide capital for growth and employment, The resilience of FDI despite inflation shows investor confidence in India's future, Increasing FDI outflows indicate Indian companies are becoming more globally competitive, Policy reforms are making it easier for foreign investment, India is attracting "quality" investment in growth sectors like technology and renewables and Sectoral diversity in FDI means growth is broad-based, not concentrated

**Negative Aspects are** Heavy dependence on inflows means India relies on foreign capital, which can be volatile, High inflation, even if controlled by the RBI, reduces purchasing power for ordinary Indians, The divergence between inflows and outflows means India is not yet a major capital-exporting nation, Some sectors are still restricted for foreign investment due to strategic concerns, Currency volatility linked to inflation can hurt exporters and Regional concentration of FDI benefits (major tech hubs get more investment than other regions)

### 9.3 Student Perspective and Reflections

As a student analyzing this topic, what stands out is how interconnected modern economies are. The inflation in India doesn't just affect Indians it affects a global company's decision to invest in India. Similarly, an interest rate decision by the RBI ripples through global capital flows. This reminds us that in our globalized world, we can't understand India's economy in isolation.

What's also remarkable is how resilient the Indian economy has proven to be. Despite multiple crises (pandemic, inflation, geopolitical tensions), growth has continued and FDI has remained strong. This suggests that India's fundamentals are quite robust. However, this shouldn't breed complacency. Inflation control, infrastructure development, and skill development remain crucial challenges that require sustained attention from policymakers.

The record FDI inflow of \$81.04 billion in FY 2024-25 is particularly encouraging because it shows that even as the RBI's inflation control measures were working, investor confidence remained strong. This balance controlling inflation while maintaining growth momentum is the sweet spot that every developing economy aspires to achieve.

### 9.3 Future Outlook and Suggestions

Looking forward, several things might shape the inflation-FDI relationship are **Global interest rates**: As developed economies begin cutting interest rates, they might attract capital away from India. India will need to maintain strong growth to stay attractive. **Energy transition**: The global shift to renewable energy could bring significant "green FDI" to India, particularly in solar and wind energy sectors. **Supply chain reorganization**: Companies continue restructuring supply chains away from China. India should position itself as a primary beneficiary through improved infrastructure and reduced regulatory friction. **Digital economy growth**: India's digital economy is expanding rapidly. This sector is less inflation-sensitive and might attract more FDI in fintech, edtech, and digital services. **Indian companies going global**: As more Indian companies mature, we should expect FDI outflows to accelerate, creating a more balanced inflow-outflow situation.

### 9.5 Final Thoughts

The relationship between inflation, FDI inflows, and FDI outflows in India tells a story of an economy in transition. India is no longer just a low-cost destination for outsourcing or a factory for cheap goods. It's becoming a source of innovation, a major consumer market, and increasingly, a source of global capital. How well India manages inflation while maintaining growth will determine how quickly this transition accelerates.

For students and future economists, this topic illustrates why macroeconomic management is so important. Central bank decisions about interest rates aren't abstract policy matters they affect real investment decisions by real companies, which in turn affects employment, growth, and prosperity. The fact that India has managed to attract record FDI despite inflation challenges suggests that with continued policy discipline and structural reforms, India's economic growth story can remain compelling for investors globally.

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