Anatomy of India's 2025–26 FDI Surge: An Exploratory Analysis

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I. The Context: Focus on Aggregates

India's current foreign direct investment (FDI) scenario remains a subject of serious discussion among government agencies and independent economic analysts. Critics have highlighted the recent extremely low net inflows as indicative of the country's poor attractiveness for investment. On their part, official assessments emphasise two primary trends: gross FDI has exceeded the recent $70-80 billion baseline to reach a record volume, and that manufacturing inflows demonstrate impressive growth. In this context, the Chief Economic Advisor (CEA) previously projected that gross FDI would surpass $90 billion in the 2025-26 fiscal year. Full-year statistics confirm this optimism, reaching a total of $94.5 billion, representing a 17.3% increase over the previous fiscal period. Initial data for 2026-27 suggest that this trend continues, with April 2026 inflows recording $15.29 billion compared to $6.63 billion in March.

Drawing definitive conclusions solely from total inflows is a common analytical limitation, often driven by the way official FDI data are released and publicised. Treating all highly nuanced FDI as economically equivalent obscures important differences in the nature of capital. Furthermore, FDI is equated with advanced, superior technology, and employment generation. The direct and indirect costs associated with FDI were not considered in such settings.

This note argues that the record gross FDI inflow of US$94.5 billion is an incomplete indicator of fresh productive foreign investment, and the growth in manufacturing FDI conceals important variations in the relative amounts received by different industries. Even a simple reorganisation of the publicly available data reveals important differences across components, sectors, and industries that have implications for interpreting India's investment performance. This is a prelude to a detailed analysis of inflows during the last two years, considering the multiple nuances of FDI and the data available. We deliberately avoid discussing net FDI flows as it was the subject matter of an earlier article published in The Hindu. https://www.linkedin.com/feed/update/urn:li:activity:7470719745416355840/

II. Deconstructing Gross Inflows

The reported gross FDI comprises four distinct categories: fresh equity inflows, reinvested earnings, equity capital of unincorporated bodies, and other capital. These components are described briefly in following. (See Table-1 and Chart-1)

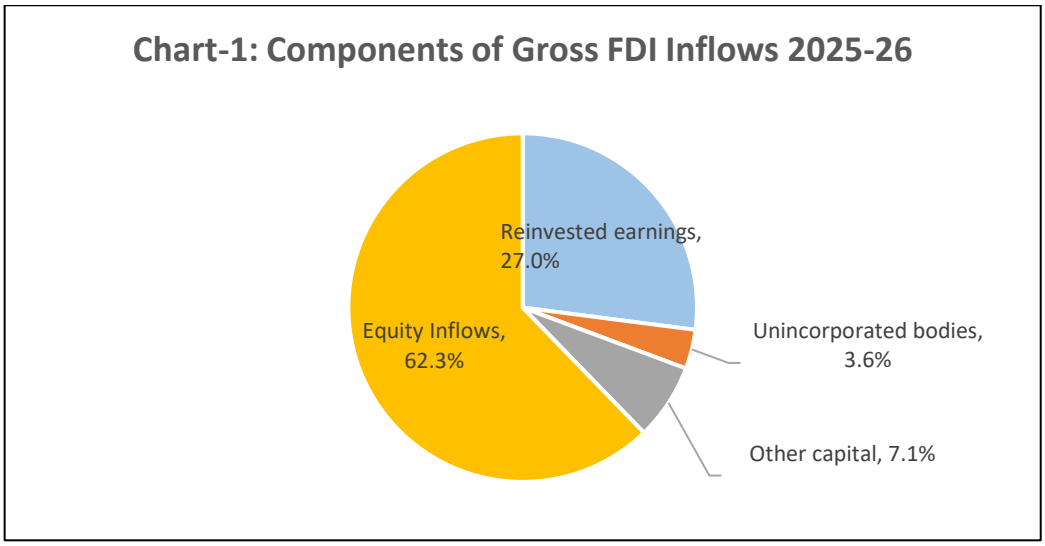
- **Reinvested Earnings:** At $25.56 billion, this category of inflows constitutes a little more than one-fourth (27.0%) of the gross inflows. Reinvested earnings represent profits generated by established foreign enterprises and retained in local operations rather than fresh capital injections from abroad.
  Thus, a substantial portion of the $94.5 billion does not represent new capital entering the country.
- **Other Capital:** Comprising primarily fixed-term intra-company loans, this component fell slightly to $6.68 billion. Although these liabilities must eventually be repatriated to the foreign lending affiliates, they are occasionally converted into equity capital. By its very character, it cannot be a long-term investment in the sense of FDI is projected.
- **Equity Capital of Unincorporated Bodies:** This segment increased by 252.4%, rising from $975 million to $3.43 billion. Of the 100 such new foreign entities registered over the year, 90 belonged to the services sector. The inflows in 2025-26 could be into new entities or additional fund infusions into older ones.
  Specifically, 13 of the 14 new registrations in insurance and at least one of the two in finance were registered with the International Financial Services Centre (IFSC) at GIFT City in Gujarat. Although these entities were likely incentivised by specific tax structures and modified regulatory frameworks, their operations will have little direct relationship to physical manufacturing in India. Given the scale of these fund flows, identifying their final deployment is an important area of study.

- **Equity Inflows:** This component reflects new capital commitments by foreign investors in the normal course and represents 62.3% ($58.85 billion) of the gross inflows in 2025–26. Similar to gross inflows, equity inflows increased by slightly more than 17% over 2024–25. Because official sector- and activity-level breakdowns are published exclusively for this segment, the subsequent analysis focuses entirely on fresh equity inflows, rather than total gross FDI.

Table 1: Summary Position of India's FDI Inflows: 2024-25 and 2025-26
(Amount in $ billion)

Sector / Component	2024-25	2025-26	% Share in Total (2025-26)	Increase/ Decrease in 2025-26 over 2024-25	% Change in 2025-26
Gross Inflows	**80.62**	**94.53**	**100**	**13.91**	**17.3**
Of which:					
– Reinvested earnings	22.76	25.56	27.0	2.80	12.3
– Equity capital of unincorporated bodies	0.98	3.44	3.6	2.46	252.4
– Other capital	6.86	6.68	7.1	-0.18	-2.7
– Equity Inflows (Total)	**50.02**	**58.85**	**62.3**	**8.83**	**17.7**
- Manufacturing	13.01	15.98	16.9	2.97	22.8
- Non-manufacturing	37.01	42.87	45.3	5.86	15.8
Share of Manufacturing in Equity Inflows (%)	**26.0**	**27.2**	**–**	**1.2**	**–**

Source: Gross inflows and their components are compiled from the Reserve Bank of India (RBI) releases. Sectoral distributions are derived from the FDI Newsletter published online by the Department for the Promotion of Industry and Internal Trade (DPIIT).



III. Manufacturing Sector: Important Industrial Policy Mismatches

Equity inflows into the manufacturing sector rose by 22.8% to $15.98 billion, in the process raising its share of total equity inflows slightly to 27.2%. (Table-1) Thus, non-manufacturing activities continue to dominate the inflows in a big way. A detailed analysis of the incremental inflows of $2.97 billion shows that its distribution is highly uneven. (Table-2 and Chart-2)

The top ten expanding industries accounted for $6.11 billion. This increase occurred primarily in sectors with a long history of foreign investment, including drugs and pharmaceuticals (a net increase of $1,020 million), the automotive industry (a net increase of $873 million), and electrical equipment ($309 million).

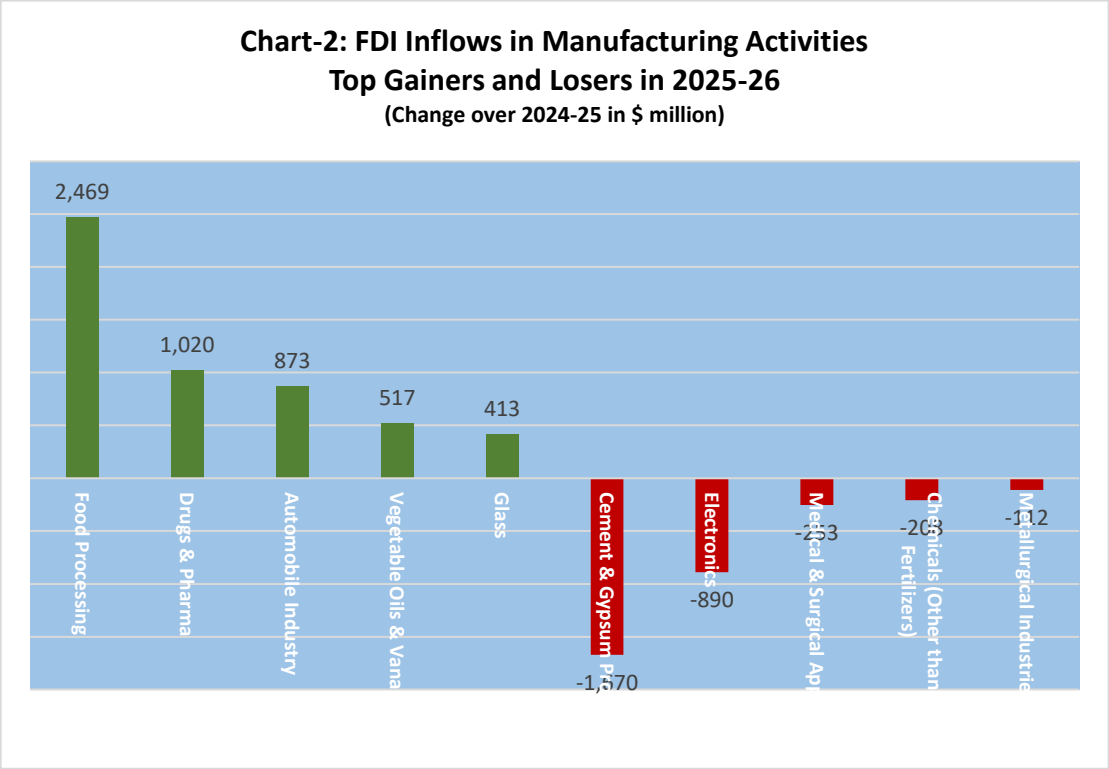
However, the food processing sector was the primary driver of manufacturing FDI expansion, rising from $541 million to $3.01 billion, contributing $2.47 billion to the total increase of $2.97 billion. The food processing category encompasses a broad spectrum of activities, ranging from primary agricultural processing and refrigeration to the production of soft drinks and alcoholic

beverages. Given that sugar processing (-2 million), vegetable oil production ($517 million), and fermentation industries (-84 million) are categorized separately under official classifications, and noting that certain downstream consumer goods carry long-term public health implications, the exact product lines receiving this $3.0 billion investment require closer inspection.

Table 2: FDI Inflows in Manufacturing Industries (Gainers vs. Losers)
(Amount in $ million)

Rank	Industry	2024-25	2025-26	Net Change
A	**Top 10 Gaining Industries**	**4,234**	**10,342**	**6,108**
1	Food Processing Industries	541	3,010	2,469
2	Drugs & Pharmaceuticals	891	1,912	1,020
3	Automobile Industry	1,586	2,459	873
4	Vegetable Oils and Vanaspati	62	580	517
5	Glass	24	436	413
6	Electrical Equipment	532	840	309
7	Printing of Books (including Litho)	108	277	169
8	Rubber Goods	82	215	133
9	Misc. Mechanical & Engineering	154	268	115
10	Textiles (including Dyed & Printed)	255	346	91
B	**Top 10 Losing Industries**	**7,458**	**4,041**	**-3,417**
1	Cement and Gypsum Products	1,813	142	-1,670
2	Electronics	2,043	1,153	-890
3	Medical and Surgical Appliances	627	374	-253
4	Chemicals (Other than Fertilizers)	1,061	853	-208
5	Metallurgical Industries	951	839	-112
6	Fermentation Industries	192	108	-84
7	Industrial Machinery	510	443	-67
8	Earth-moving Machinery	69	10	-59
9	Diamond, Gold Ornaments	158	113	-44
10	Ceramics	36	6	-30
C	**Manufacturing — Others**	**1,316**	**1,596**	**281**
	Manufacturing — Total (A+B+C)	**13,008**	**15,980**	**2,972**

Source: Based on the broad sectoral distribution reported by DPIIT.



Concurrently, the heavy manufacturing and capital goods sectors experienced contractions. Inflows dropped in industrial machinery (-$67 million), metallurgical industries (-$112 million),

and chemical manufacturing (-$208 million). The largest single decline was observed in cement and gypsum products, where foreign equity inflows fell by $1.67 billion to $142 million.

A notable divergence is evident within high-technology sectors currently prioritised in India's development programmes. Electronics manufacturing, a central element of the Production Linked Incentive (PLI) scheme and broader domestic manufacturing initiatives, saw new equity inflows fall by $890 million, approximately to half of the level recorded in 2024-25, to finish at $1.15 billion. Medical and surgical appliances similarly recorded a contraction of $253 million.

Electronics FDI fell from $2.04 billion to $1.15 billion despite record aggregate inflows. One possible interpretation is that the initial investment cycle associated with the PLI programme is moderating. Confirmation, however, requires firm-level evidence.

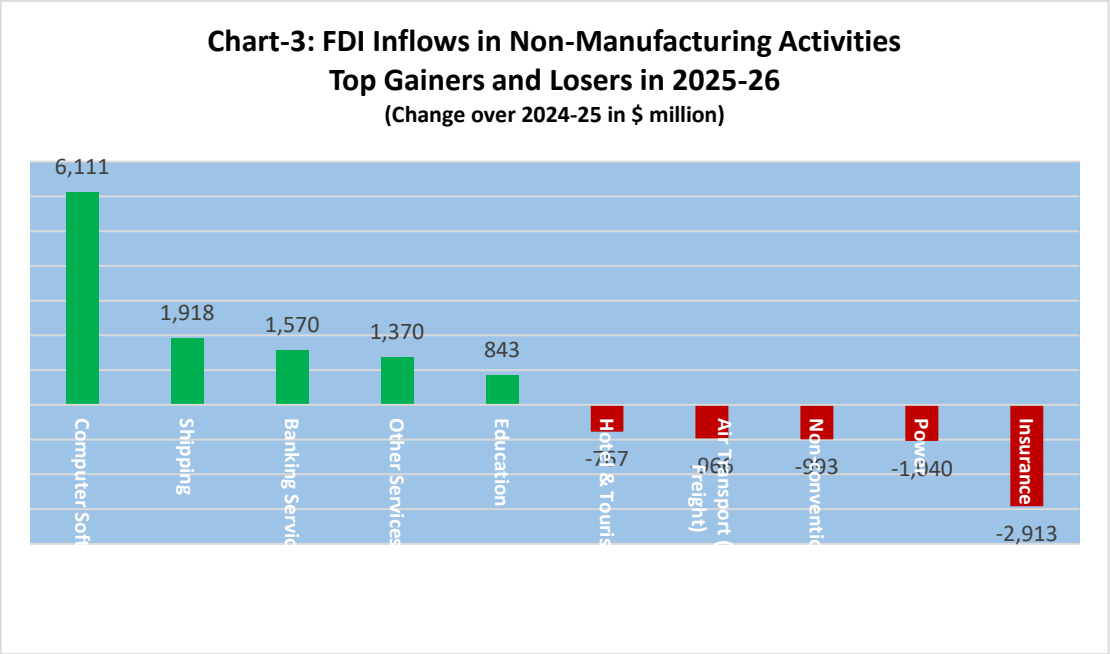
IV. Non-Manufacturing Activities

The growth of FDI into non-manufacturing segments also displays a highly uneven pattern. Equity investments into computer software rose by $6.11 billion to a total of $13.83 billion (See Table-3 and Chart-3). This single category attracted inflows that are nearly equivalent to new FDI in the manufacturing sector ($15.98 billion). While this may reflect India's established role as an international technology hub, the sector remains an omnibus category comprising a wide range of applied activities, including fintech, retail tech, health tech, and artificial intelligence and data centres. Only further differentiation can shed light on the factors driving this large amount of FDI.

Table 3: FDI Inflows in Non-manufacturing Activities (Gainers vs. Losers)
(Amount in $ million)

Rank	Activity	2024-25	2025-26	Increase/Decrease in 2025-26 over 2024-25
A	**Top 10 Gaining Activities**	**13,624**	**27,478**	**13,854**
1	Computer Software	7,722	13,833	6,111
2	Shipping	66	1,984	1,918
3	Banking Services	115	1,685	1,570
4	Other Services	687	2,058	1,370
5	Education	468	1,312	843
6	Agriculture Services	41	864	823
7	Financial	2,104	2,478	374
8	Construction (Infrastructure)	2,245	2,574	330
9	Courier	150	419	269
10	Outsourcing	25	272	247
B	**Top 10 Losing Activities**	**20,248**	**11,960**	**-8,287**
1	Insurance	4,929	2,016	-2,913
2	Power	1,429	388	-1,040
3	Non-conventional Energy	4,012	3,019	-993
4	Air Transport (including Air Freight)	1,349	383	-966
5	Hotel & Tourism	1,307	541	-767
6	Telecommunications	746	118	-628
7	Hospital & Diagnostic Centres	1,559	1,023	-536
8	Trading	4,176	4,011	-165
9	Research & Development (R&D)	212	47	-165
10	Construction Development (Townships, Housing, etc.)	529	414	-114
C	**Non-manufacturing – Others**	**3,138**	**3,428**	**290**
	Non-manufacturing – Total (A+B+C)	**37,010**	**42,867**	**5,857**

Source: Same as in Table 2.



Infrastructure activities exhibited a mixed pattern. Notably, while shipping services recorded large gains of $1.91 billion, air transport services suffered a fall of almost $1 billion. Important utility and infrastructure sectors recorded net reductions. Telecommunications witnessed a reduction of $628 million. Inflows into power utilities fell by $1.04 billion, while non-conventional energy too dropped by $993 million, that is, a combined reduction of approximately $2 billion across the electrical energy spectrum. Furthermore, the construction of development projects recorded a net gain of approximately $330 million. In contrast, construction development (covering townships and housing projects) declined by $114 million. This slowdown is broadly consistent with the significant decline in the volumes observed in the cement category industry.

The insurance sector, which underwent policy relaxation to permit greater foreign equity participation (the foreign ownership cap was raised from 49% to 74% under the automatic route), recorded a net reduction of $2.91 billion. These data suggest that foreign capital infusion following the 2021 regulatory revisions could have run its course. The transition to a further liberalised FDI policy, which allows 100% foreign investment, may attract further capital. Early indications suggest that these flows are likely to favour the acquisition of existing entities rather than setting up new entities and promoting competition. It is also relevant to note in this context that practically all the newly established unincorporated bodies in insurance chose to operate from the IFSC. If the individual investment figures were available, it would have been possible to examine whether the huge jump in inflows was due to such entities.

V. Toward an Assessment Based on "Real and Effective FDI"

Three conclusions emerge from the above discussion. First, less than two-thirds of the reported gross inflow represents fresh equity investments. Second, manufacturing continues to account for only approximately one-quarter of fresh equity inflows despite policy emphasis. Third, both manufacturing and services exhibit substantial concentrations and divergences from policy priorities. Given the data and resources at its disposal, official agencies would do well to offer information that would help understand the developments in the FDI scenario far better, instead of restricting themselves to simple aggregates and ratios.

FDI and the data have, however, many nuances. These factors need to be taken into account to better understand the impact of FDI on the economy and sustainability of the current surge. Our further research would attempt to differentiate between different types of investors: real foreign direct investment (RFDI) from broader corporate financing transactions, such as investments by institutional private equity funds, and returning domestic investors and diaspora. Fresh productive capacity creation (greenfield investments) and transactions involving the transfer of existing corporates in part or in full (brownfield acquisitions) will also be covered, after excluding notional

and older remittances. These adjustments are expected to reduce the total equity inflows and significantly alter the relative scale and sectoral configuration of the inflows.

This remittance and firm-level assessment will track concentration within industries, enterprise age, ownership history, the scale of individual large-value remittances, authorised capital, and the ultimate geographic origin of the investing entities and possibly the state-level preferences of RFDI investors.