

## India's Net FDI Plunges in May Amid Rising Repatriation



India experienced a sharp decline in its net Foreign Direct Investment (FDI) in May 2025, plummeting by 98% year-on-year to just \$35 million. This significant drop, as reported by the Reserve Bank of India (RBI), is primarily attributed to a substantial increase in repatriation of profits and divestment by foreign investors, coupled with a slight dip in gross FDI inflows.

Net FDI represents the total foreign capital flowing into a country minus the outflows due to profit repatriation, divestment, or outward investments by domestic companies. In May, while gross FDI inflows into India decreased by 11% year-on-year to \$7.2 billion, repatriation of FDI surged by nearly 24%, reaching \$5 billion. This marked increase in capital outflow by foreign entities signals a period of profit-taking and potentially a degree of caution among some investors.

Adding to the dynamic, outward FDI, Indian companies investing abroad, also rose to \$2.1 billion in May 2025, up from \$1.8 billion in the same period last year. This combination of higher repatriation and increased outward investment significantly contributed to the sharp contraction in net FDI.

Despite the notable drop in net FDI, the RBI's "State of the Economy" article in its July 2025 bulletin suggests that the rise in repatriation could be viewed as a characteristic of a "mature market," where foreign investors possess the flexibility to enter and exit smoothly. This perspective implies that while net figures fluctuate, the underlying economic stability and investor confidence in India's long-term growth prospects remain robust. Indeed, gross FDI

inflows for the initial two months of the current fiscal year (April-May 2025) were a robust \$15.91 billion.

Major sources of FDI inflows in May 2025 included Singapore, Mauritius, the UAE, and the United States, collectively accounting for over 75% of the total. Key sectors attracting this investment were manufacturing, financial services, and computer services. Conversely, top destinations for Indian outward investments included Mauritius, the US, and the UAE, with significant investments in transport, storage, and communication; manufacturing; and financial services.

While the sharp decline in May's net FDI warrants attention, analysts emphasize the importance of distinguishing between net and gross figures. The continued healthy gross inflows suggest sustained interest in India's economy. However, bolstering long-term, stable FDI remains crucial for India to reduce reliance on more volatile sources of capital and ensure sustained economic growth.