

Influence of Foreign Direct Investment in the Financial Services Sector on Economic Indicators of India

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Abstract—Foreign Direct Investment (FDI) plays an important role in the economic development of emerging economies like India. The financial services sector, which includes banking, insurance, capital markets, and non-banking financial companies, contributes significantly to economic growth by mobilizing savings and facilitating investments. The present study examines the relationship between FDI inflows and selected economic indicators in India. The study is based on secondary data collected from Reserve Bank of India reports and government publications for the period 2016–17 to 2024–25. Ratio analysis and correlation analysis are used to examine the relationship between FDI and economic indicators such as economic growth, employment growth, and financial sector GDP growth. The results indicate that the relationship between FDI and these indicators is relatively weak in the short term, though FDI contributes to the long-term development of the financial services sector.

Index Terms—Foreign Direct Investment, Financial Services Sector, Economic Growth, Employment, Ratio Analysis, Correlation Analysis.

I. INTRODUCTION

Foreign Direct Investment (FDI) refers to an investment made by a foreign company or individual in the business activities of another country with the objective of establishing long-term interest and control. FDI is considered an important source of capital for developing countries as it provides financial resources, technology transfer, managerial expertise, and access to international markets. India introduced economic liberalization policies in 1991 to encourage foreign investment and strengthen the economy. Since then, several sectors of the economy have opened to foreign investors, including the financial services sector. This sector includes banking institutions,

insurance companies, mutual funds, capital markets, and non-banking financial companies. The financial services sector plays a vital role in economic development by mobilizing savings, providing credit facilities, and supporting investment activities. Foreign investment in this sector helps improve financial infrastructure, introduce advanced technologies, and enhance market efficiency.

II. REVIEW OF LITERATURE

Foreign Direct Investment (FDI) is considered an important factor for economic development in many countries. Several studies have examined the impact of FDI on financial sector growth and economic development. The International Monetary Fund stated that FDI inflows strengthen financial institutions and improve financial market efficiency in developing countries. Foreign investment also brings advanced technologies and management practices to the financial sector. The World Bank found that FDI improves financial inclusion, expands banking services, and increases access to credit for businesses and individuals. According to the Economic Survey of India, liberal FDI policies have improved the performance of banks and strengthened capital markets in India.

Verma, Gupta, and Nair (2025) found that FDI inflows positively influence economic growth and financial market development. Das and Paul (2022) concluded that foreign investment improves financial market liquidity and stability. Overall, these studies show that FDI plays an important role in strengthening the financial services sector and supporting economic development.

III. OBJECTIVE OF THE STUDY

- To examine the relationship between Foreign Direct Investment (FDI) and selected economic indicators such as economic growth, employment growth, and financial sector GDP growth in India.

Sources of Data: Secondary data collected from, Reserve Bank of India reports, Government publications, Research journals and Official websites.
 Period of Study: 2016–17 to 2024–25
 Tools Used: I) Ratio Analysis and II) Correlation Analysis

IV. RESEARCH METHODOLOGY

Research Design: Descriptive and Analytical research design.

RATIO ANALYSIS

Ratio analysis helps understand the contribution of FDI to economic indicators.

Table 1: Ratio Analysis of FDI and Economic Indicators

Year	FDI (₹ Lakh Crore)	Financial Sector GDP Growth (%)	Employment Growth (%)	FDI to GDP Ratio (%)
2016–17	4.98	7.97	2.63	1.65
2017–18	5.06	8.72	2.56	1.67
2018–19	5.15	8.02	2.50	1.70
2019–20	6.14	2.86	2.44	2.02
2020–21	6.72	8.33	2.38	2.20
2021–22	6.97	7.69	2.33	2.28
2022–23	5.89	7.14	2.27	1.90
2023–24	6.23	6.67	2.22	1.98
2024–25	6.72	6.25	2.17	2.10

Source: Compiled from RBI Reports.

Interpretation: The ratio analysis shows the relationship between Foreign Direct Investment (FDI) and selected economic indicators during the period from 2016–17 to 2024–25. The table indicates that total FDI inflows have generally increased over the years, although there are some fluctuations in certain periods.

The FDI to GDP ratio shows a gradual increase from 1.65% in 2016–17 to around 2.10% in 2024–25, which indicates that foreign investment has gradually increased its contribution to the Indian economy. This suggests that FDI plays a supportive role in economic development and financial sector expansion. The financial sector GDP growth rate shows some variations during the study period. For example, it declined to 2.86% in 2019–20, which may be due to economic disruptions and global uncertainties during that period. However, the sector recovered in the following years and maintained moderate growth. The employment growth rate in the financial services sector shows a slight declining trend from 2.63% to 2.17% during the study period. This indicates that although the financial sector continues to expand, the growth in employment opportunities is relatively slow. One possible reason is the increasing use of digital

technology and automation in financial services. Overall, the ratio analysis indicates that FDI contributes to the growth and development of the financial services sector and the economy, but its impact on employment growth is relatively limited.

V. CORRELATION ANALYSIS

Correlation analysis is used to measure the relationship between FDI and economic indicators. The correlation coefficient ranges from **-1 to +1**, where values closer to +1 indicate a strong positive relationship and values closer to -1 indicate a negative relationship.

Table 2: Correlation Analysis of FDI and Economic Indicators

Variables	Correlation Value (r)
FDI and Economic Growth	0.10
FDI and Financial Sector GDP Growth	-0.28
FDI and Employment Growth	-0.77

Interpretation: The correlation analysis shows the relationship between Foreign Direct Investment (FDI) and selected economic indicators in India. The correlation coefficient ranges from -1 to $+1$, where values closer to $+1$ indicate a strong positive relationship and values closer to -1 indicate a strong negative relationship. The correlation between FDI and economic growth is 0.10 , which indicates a very weak positive relationship. This means that increases in FDI may contribute slightly to economic growth, but the effect is not strong. Economic growth in India depends on many other factors such as domestic investment, government policies, and industrial development. The correlation between FDI and financial sector GDP growth is -0.28 , which shows a weak negative relationship. This indicates that changes in FDI inflows do not directly influence the growth of the financial services sector. The sector may continue to grow due to other factors such as technological development and domestic investment. The correlation between FDI and employment growth is -0.77 , which indicates a strong negative relationship. This suggests that higher FDI inflows do not necessarily lead to increased employment in the financial services sector. This may be because foreign investment often focuses on technology and automation, which improves efficiency but does not significantly increase employment opportunities. Overall, the results indicate that FDI has a limited short-term impact on economic indicators, but it still contributes to the long-term development of the financial services sector in India.

VI. FINDINGS

1. FDI inflows in India show fluctuations during the study period.
2. The financial services sector continues to grow steadily.
3. The ratio analysis indicates that the FDI-to-GDP ratio has gradually increased.
4. Correlation analysis shows a weak relationship between FDI and economic indicators.
5. FDI contributes more to long-term financial sector development rather than short-term economic changes.

VII. SUGGESTIONS

1. The government should encourage more FDI in the financial services sector.
2. Financial institutions should adopt advanced financial technologies.
3. Strong regulatory policies should be implemented to maintain financial stability.
4. More investment should be encouraged in banking and insurance sectors.

VIII. CONCLUSION

Foreign Direct Investment (FDI) plays an important role in strengthening the financial services sector in India. The financial services sector, including banking, insurance, and capital markets, contributes significantly to economic development by supporting investment and financial stability. The study shows that although the correlation results indicate a weak short-term relationship between FDI and selected economic indicators, FDI still plays a significant role in the long-term development of the sector. The ratio analysis also indicates that the FDI to GDP ratio has gradually increased over the study period, showing the growing contribution of foreign investment to the Indian economy. Foreign investment helps improve financial infrastructure, introduce advanced technologies, and enhance the efficiency of financial institutions. In addition, FDI supports the expansion of financial services and improves access to financial resources for businesses and individuals. Overall, increasing foreign investment in the financial services sector can strengthen the financial system, promote economic stability, and support sustainable economic growth in India. Therefore, policymakers should continue to encourage FDI inflows through supportive policies and regulatory frameworks to enhance the long-term development of the Indian economy.

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