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India's External Sector, Financial Dynamics and Labour Market Evolution in 2024–25: Resilience & Transformation

Dr. Amrit Varsha *

Guest Teacher, Department of Economics, Marwari College, Bhagalpur, T.M.B.U. Bhagalpur, Bihar, India

Corresponding Author: *Dr. Amrit Varsha

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ABSTRACT

This research paper investigates India's macroeconomic resilience and transformational trajectory in 2024–25 by examining four critical dimensions: external sector dynamics, capital account flows, financial intermediation, and labour market evolution. In the external sector, merchandise exports grew by 1.6% year-on-year between April and December 2024, while imports rose by 5.2%, widening the goods trade deficit. However, a robust services trade surplus—elevating India to the seventh-largest global services exporter—and record remittance inflows helped contain the current account deficit at 1.2% of GDP in Q2 FY25. Private transfers, driven by expanded employment opportunities in OECD countries, emerged as a key stabilizer.

On the capital account front, gross foreign direct investment (FDI) inflows increased by 17.9% during April–November 2024, second only to FY21 levels, even as repatriations rose by 33.2%, reflecting mature exit mechanisms and investor confidence. The inclusion of Indian government securities in the JP Morgan Emerging Markets Bond Index spurred foreign portfolio investment in debt, contributing to a peak foreign exchange reserve of US$704.9 billion in September 2024—covering 90% of external debt and over ten months of imports.

Within the domestic financial sector, scheduled commercial banks sustained double-digit credit growth, driven by housing and services, despite regulatory tightening such as higher risk weights on unsecured retail loans. Industrial credit also began to recover, albeit at a slower pace.

The labour market showcased significant formalisation and job growth: the unemployment rate declined from 6.0% in 2017–18 to 3.2% in 2023–24, the labour force participation rate rose to 60.1%, and net EPFO subscriptions more than doubled from 61 lakh in FY19 to 131 lakh in FY24, with youth accounting for nearly half of new additions.

The paper concludes that strategic export diversification, enhanced technology partnerships in high-value sectors—such as biotechnology, semiconductors, and quantum technologies—and focused upskilling for an AI-augmented workforce are imperative to sustain growth, deepen resilience, and reinforce India's global economic standing.

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1. INTRODUCTION
Economic growth and stability in the early 2020s have been influenced by a complex interaction of global and domestic factors, including geopolitical developments, shifting trade dynamics, monetary policies, and technological advancements. In this context, India's economy has demonstrated notable resilience, anchored by its burgeoning services sector, rising foreign direct investment, steady remittance inflows, and strengthening financial intermediation. These elements have collectively contributed to sustaining external sector stability and promoting inclusive growth despite persistent global uncertainties.

The period 2024–25 marks a critical phase in India’s economic trajectory, characterized by gradual recovery from pandemic-induced disruptions and heightened integration within the global economy. Merchandise exports recorded modest growth amid volatile commodity prices, while services exports and private remittances emerged as vital pillars balancing external accounts. Simultaneously, capital flows including record gross FDI inflows and evolving portfolio investments played an essential role in financing the current account deficit and building foreign exchange buffers.

On the domestic front, the financial sector exhibited sustained credit growth, supported by housing and services sectors, alongside regulatory measures to maintain macroprudential stability. The labour market showed encouraging signs of formalisation and job creation, with improvements in unemployment rates and labour force participation, further bolstered by expanding formal employment in the Employees’ Provident Fund Organisation.

Given these multifaceted developments, this research paper aims to analyze India’s external sector performance, capital account trends, financial sector dynamics, and labour market evolution during 2024–25. It seeks to provide insights into the drivers of macroeconomic resilience and transformation, highlighting policy priorities necessary to capitalize on emerging opportunities and address challenges in a rapidly evolving global landscape.

2. REVIEW OF LITERATURE
The literature on India’s macroeconomic dynamics underscores the critical role of invisibles— particularly services exports and remittances—in stabilising the external sector. Tumbe (2018) demonstrates that India’s position as the largest global remittance recipient reflects deepening household dependence on private transfers, which have grown alongside international migration and contribute disproportionately to states such as Kerala and Punjab. Subsequent studies highlight that software and business services exports have further bolstered external receipts; Chitgupi (2023) [1] finds that software services contributed over 20 percent of global market share by 2022, insulating India’s current account from commodity price shocks.

Research on capital account flows emphasises evolving FDI dynamics and the maturation of investor exit channels. Official analyses and recent briefs note that gross FDI inflows into India surpassed US$50 billion in FY25, driven by reforms in manufacturing and digital services, even as net inflows moderated due to record repatriations of over US$51 billion. This dual trend robust entry and healthy exits reflects growing investor confidence and a more liquid exit environment. Inclusion of Indian G-secs in the JP Morgan EM Bond Index in 2024 has also attracted substantial debt-related portfolio flows, corroborated by survey data showing elevated foreign portfolio investment volatility amid global monetary shifts.

In the banking sector, empirical evidence points to a recent moderation in credit growth following regulatory tightening. Reuters (2023) [4] and RBI’s Financial Stability Report (2025) document deceleration of unsecured retail and NBFC lending after risk-weight hikes on personal loans and credit cards, with aggregate bank credit growth easing from 11.3 percent in late 2024 to under 10 percent by mid-2025. These studies suggest that while prudent regulation has tempered overheating in some segments, credit to housing and services continues to expand, sustaining overall financial intermediation.

Finally, the burgeoning literature on labour market formalisation and technology adoption emphasises India’s demographic dividend and the disruptive potential of AI. PLFS-based analyses reveal a decline in unemployment.

Need for Study
India’s rapidly evolving economic environment—characterized by shifting global trade patterns, volatile capital flows, and transformative technological advancements—necessitates a timely assessment of the factors underpinning India’s macroeconomic resilience. As policy makers seek to balance growth consolidation with external stability, understanding the combined roles of services exports, remittance inflows, foreign investment, credit dynamics, and labour market formalisation becomes critical. This study addresses that need by providing an integrated analysis of these interlinked dimensions, thereby informing data-driven strategies to sustain India’s economic momentum and enhance its competitiveness in an increasingly complex global landscape.

3. OBJECTIVE OF THE STUDY
This study aims to provide a comprehensive analysis of India’s macroeconomic performance during 2024–25 by examining the interplay between external sector dynamics, capital account flows, domestic financial intermediation, and labour market evolution. It seeks to identify the key drivers of resilience and transformation in India’s economy and offer policy insights for sustaining growth and stability.

Specific Objectives
- To assess the contributions of merchandise exports, services trade surplus, and remittance inflows in containing India’s current account deficit.
- To evaluate the role of foreign direct investment and portfolio flows—including the impact of G-sec inclusion in

global bond indices—in financing the external deficit and building reserve buffers.

- To analyse trends in bank credit growth across major sectors and the effects of regulatory measures on credit moderation and financial stability.
- To examine labour market developments, including unemployment, participation, formalisation via EPFO subscriptions, and the potential impact of AI adoption on workforce skills.

4. RESEARCH METHODOLOGY

The study employs a secondary-data approach, drawing on official publications from the Reserve Bank of India, Ministry of Commerce, Ministry of Statistics and Programme Implementation, World Bank remittance data, and corporate filings for FY24–25. Quarterly and annual time-series data on trade, capital flows, bank credit, and employment indicators are systematically compiled and analysed to identify trends, correlations, and policy impacts. Descriptive statistics and growth-rate comparisons form the core analytical techniques, complemented by graphical illustrations for visual clarity.

Limitation

The analysis is constrained by the availability and lag of official data releases, which may not capture real-time shocks or sector-specific nuances. Furthermore, reliance on secondary sources limits the ability to validate data through primary surveys or interviews.

5. RESULT AND DISCUSSION

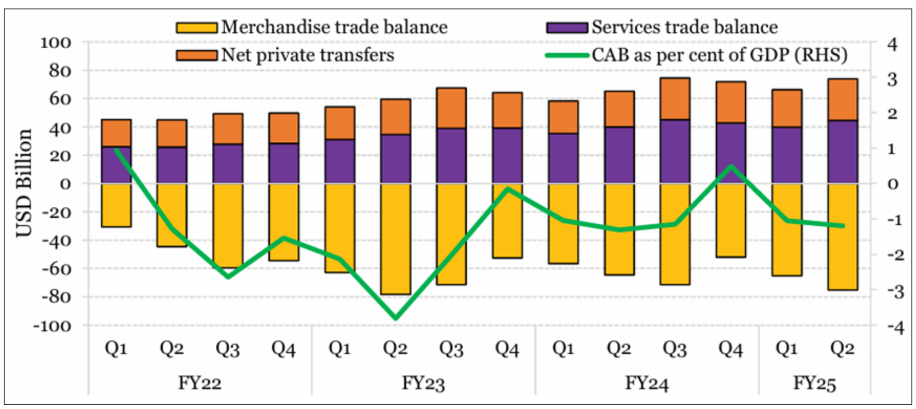
1. India's External Sector: Bolstered by Services and Remittances

India's external sector has shown resilience despite global market fluctuations. Between April and December 2024, merchandise exports grew by 1.6% year-on-year, even as lower commodity prices weighed on the petroleum goods segment. Strikingly, exports excluding petroleum rose by 7.1%, and when gems and jewellery are also excluded, non-petroleum, non-gems and jewellery exports surged by 9.1%. These figures highlight the diversification and strength of India's export basket.

On the import front, merchandise imports increased by 5.2% during the same period, driven primarily by higher non-oil, non-gold imports. Gold imports also climbed, influenced by elevated global prices, early festive purchases, and safe-haven demand. This import growth outpaced export gains, leading to an expanded merchandise trade deficit and exerting pressure on India's trade balance.

Counterbalancing this deficit, India's services sector has delivered a robust surplus. The country has ascended to the seventh-largest global exporter of services, reflecting its competitive edge in IT, business process management, and financial services. Strong services inflows have been instrumental in offsetting merchandise shortfalls and supporting the overall trade position.

Complementing services trade, remittances from Indians working abroad have reached record highs, making India the world's top remittance recipient. Driven by increased employment opportunities in OECD economies, these private transfers have provided a steady net inflow. Together, the services surplus and remittance inflows have kept the current account deficit contained at 1.2% of GDP in Q2 FY 2025, underpinning external sector stability.



Source: Tables 196 and 197, RBI Handbook of Statistics on the Indian Economy

Fig 1: Services trade surplus and private transfers lending balance to the external sector

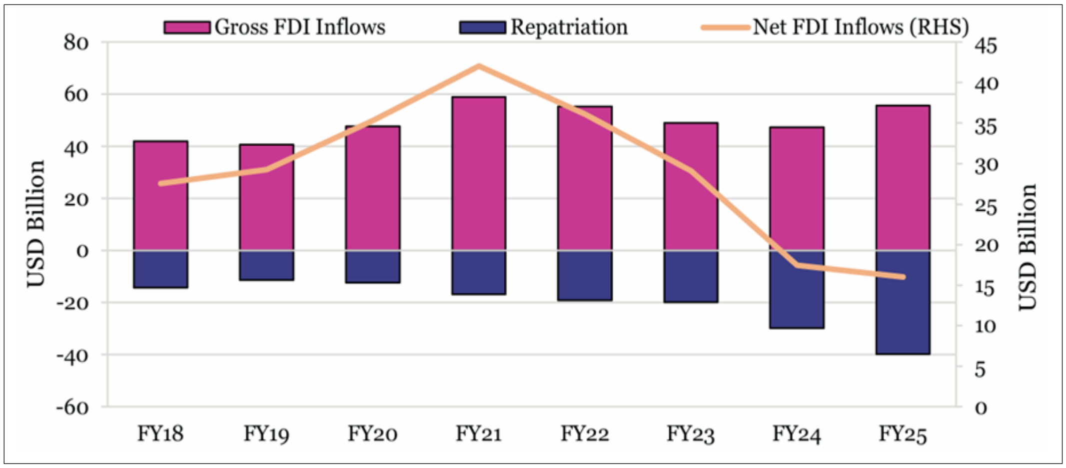
The chart clearly demonstrates how services trade surplus and private transfers consistently counterbalance India's merchandise trade deficits from FY22 to FY25. The yellow bars show persistent merchandise trade deficits throughout this period, reflecting the challenges discussed earlier with commodity price volatility and rising imports. However, the purple segments reveal robust and growing services trade surpluses that have systematically offset these deficits, supporting India's rise to become the seventh-largest global services exporter. The orange segments representing net private transfers maintain remarkable stability at $20-30 billion quarterly, validating India's position as the world's top remittance recipient.

The green line tracking Current Account Balance as percentage of GDP tells the most compelling story of external sector management. After reaching concerning lows of nearly -3.5% of GDP in FY23 Q2, the CAB has steadily improved to around -1.2% of GDP by FY25 Q2. This recovery trajectory directly illustrates how the combination of services surplus and remittance inflows has successfully contained the current account deficit despite merchandise trade pressures, demonstrating the resilience mechanisms that have safeguarded India's external sector stability amid global economic volatility.

Capital Account Strength Reinforces External Sector Stability

India's capital account has provided comfortable financing for the current account deficit, ensuring overall external sector stability through robust foreign investment flows. Gross foreign direct investment (FDI) inflows surged by 17.9% year-on-year during April-November 2024, reaching levels higher than any corresponding period except FY21. This strong performance underscores sustained investor confidence in India's economic prospects and growth potential across various sectors.

While net FDI inflows declined during this period, this reduction primarily reflects a significant 33.2% year-on-year increase in repatriations, following an even steeper 51.5% growth in FY24. The rise in repatriation through secondary sales and IPOs by multinational companies amid strong stock market performance actually signals positive investor sentiment rather than capital flight. These profitable exits demonstrate that direct investors are confident in their returns and the robustness of India's capital markets, indicating a mature and well-functioning investment ecosystem that continues to attract fresh capital while allowing successful investors to realize gains.



Source: Calculations based on FDI figures from RBI Bulletin Table no. 34

Fig 2: Rise in repatriation even as gross FDI inflows remain robust

The chart illustrates a compelling narrative of India's FDI landscape from FY18 to FY25, where gross FDI inflows have maintained remarkable resilience despite increasing repatriation outflows. The magenta bars show gross FDI inflows consistently ranging between $40-60 billion annually, with a notable peak in FY21 at nearly $60 billion, followed by sustained levels around $50-55 billion in recent years. This stability in gross inflows, even during the challenging FY25 period, validates the earlier observation that India continues to attract strong foreign investment interest across various sectors.

The dark blue segments representing repatriations tell an equally important story of investor confidence through profitable exits. Repatriations have grown substantially from minimal levels in FY18-19 to significant outflows of $25-35 billion in FY24-25, reflecting the 33.2% year-on-year increase mentioned in the text. This surge in repatriations, particularly through secondary sales and IPOs amid strong stock market performance, demonstrates that multinational companies are successfully monetizing their investments rather than fleeing the market.

The orange line tracking net FDI inflows reveals the combined impact of these trends, showing a decline from peaks of around 42-43 billion in FY21-22 to approximately 15-17 billion in FY24-25. However, this decline should be interpreted positively - it reflects a maturing investment ecosystem where India can simultaneously attract fresh capital while providing attractive exit opportunities for existing investors. The fact that gross inflows remain robust even as repatriations increase suggests that India's investment appeal continues to draw new capital, creating a healthy cycle of investment and profitable exits that reinforces long-term investor confidence.

Portfolio Investment Volatility and Reserve Management

Foreign portfolio investment (FPI) flows have exhibited significant volatility in the second half of 2024, primarily driven by global geopolitical tensions and shifting monetary policy landscapes. Net FPI inflows decelerated sharply to $10.6 billion during April-December 2024, down from $31.7 billion in the same period of the previous year. However, this decline was partially offset by heightened activity in the debt segment following the inclusion of India's sovereign government securities (G-secs) of specific tenors in the JP Morgan EM Bond Index, which attracted dedicated fixed-income flows and enhanced India's integration into global bond markets.

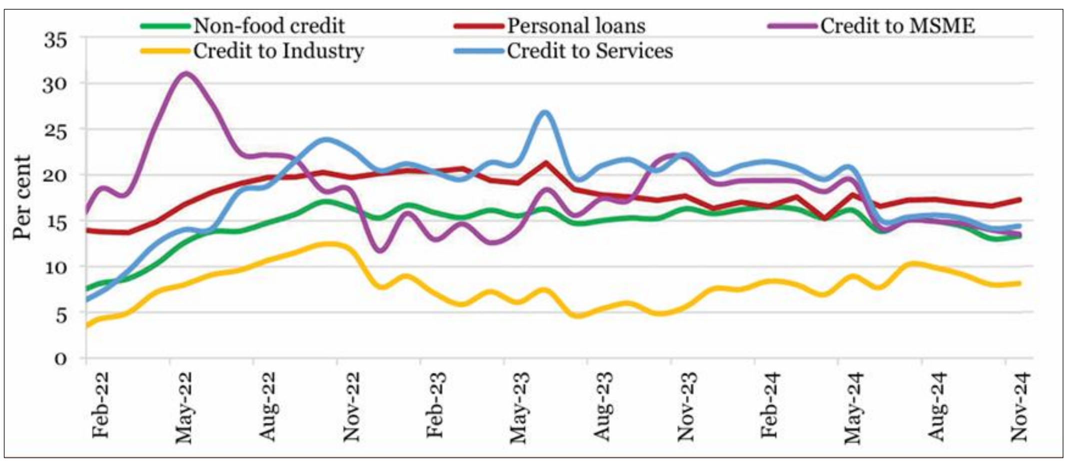
Despite FPI volatility, stable overall capital flows enabled India's foreign exchange reserves to grow substantially from \$616.7 billion in January 2024 to a peak of \$704.9 billion by September 2024, before moderating to \$634.6 billion by January 3, 2025. These reserves provide robust external sector protection, covering 90% of external debt and offering more than ten months of import cover, creating a strong buffer against potential external vulnerabilities. This reserve adequacy underscores India's improved capacity to weather global financial market turbulence while maintaining external sector stability.

Looking forward, evolving global trade dynamics present both challenges and opportunities for India's external sector. Potential policy changes in major economies could impact key Indian export sectors including chemicals, machinery, textiles, and electronics, necessitating strategic diversification of export markets in the short term and enhanced market share expansion over the medium term. Long-term success will depend on India's ability to position itself as a strategic partner in high-value sectors such as biotechnology, semiconductors, space technology, quantum computing, and advanced telecommunications, leveraging strategic technology partnerships to move up the global value chain and reduce dependence on traditional export categories.

Financial Sector Prospects Amid Moderating Credit Growth

India’s banking and financial sector continues to demonstrate stability and strong capitalization while meeting the economy’s diverse financing requirements. Scheduled commercial banks have maintained double-digit credit growth, although this rate has moderated in recent months due to a high base effect and targeted regulatory tightening in overheated segments. In November 2023, the Reserve Bank of India increased risk weights on unsecured retail loans by 25 basis points to curb rapid expansion, particularly in personal loans. Despite this measure, retail credit growth remains broad-based, with housing loans serving as the primary growth driver and continued strong demand for personal credit underpinning overall retail lending momentum.

Beyond the retail segment, credit to the services sector has emerged as another significant contributor to gross bank credit expansion, reflecting the sector’s ongoing transformation and investment needs. Industrial credit growth is also showing signs of recovery, although it lags behind the pace observed in housing and services. Looking ahead, the financial sector’s ability to manage credit quality, calibrate regulatory measures, and support sustainable growth across key sectors will be critical to sustaining financial stability and fostering inclusive economic development.



Source: Calculations based on credit figures in Table no. 170 -Deployment of Gross Bank Credit by Major Sectors, Handbook of Statistics on the Indian Economy

Fig 3: Moderation in the growth of bank credit to different sectors

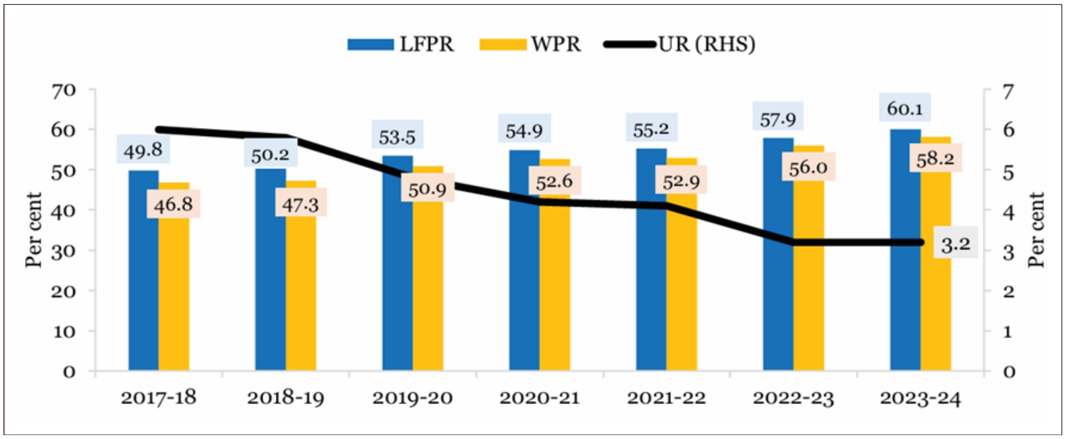
The chart tracks year-on-year growth rates of gross bank credit to five key segments non-food credit, personal loans, credit to industry, credit to services, and credit to MSMEs from February 2022 through November 2024. All series exhibit deceleration from mid-2022 peaks. Notably, MSME credit (purple line) surged above 30% in early 2022 but then steeply eased to around 13–15% by late 2024. This reflects targeted regulatory caution and a high base effect following pandemic relief lending. Meanwhile, services credit (blue line) climbed from single digits in early 2022 to over 25% by mid-2023 before moderating to near 15% by November 2024, aligning with the broad-based expansion of the services sector.

Personal loans (red line) maintained relatively steadier growth, rising from roughly 15% in early 2022 to about 20% in mid-2023 and gradually moderating to 17–18% by late 2024. The RBI’s 25 basis-point hike in risk weights on unsecured retail loans in November 2023 likely tempered this segment’s momentum. Credit to industry (yellow line) and aggregate non-food credit (green line) show more subdued trajectories: industry credit peaked near 12% in mid-2022, then settled around 8–10%, while non-food credit growth eased from over 18% to about 13% by November 2024. The overall moderation underscores both the effects of a high prior base and prudent regulatory measures, even as housing and services lending continue to drive credit expansion.

Strengthening Employment Indicators Amid Post-Pandemic Recovery

India's labour market has exhibited notable improvements driven by post-pandemic economic revival and increased formalisation. According to the 2023–24 Periodic Labour Force Survey, the overall unemployment rate for those aged 15 and above declined from 6.0% in 2017–18 to 3.2% in 2023–24, reflecting substantial job creation and absorption in both urban and rural areas. Concurrently, the labour force participation rate (LFPR) and worker-to-population ratio (WPR) have trended upward, indicating that more individuals are entering and remaining active in the workforce.

In Q2 FY25, urban employment conditions strengthened further: the unemployment rate eased to 6.4% from 6.6% in Q2 FY24, while both LFPR and WPR recorded modest gains. These trends underscore the resilience of India's labour market and its capacity to generate employment opportunities, particularly in formal sectors, as the economy continues its growth trajectory.



Source: Annual PLFS report 2023-24, MoSPI

Fig 3: Improvement in employment indicators

The chart highlights a clear upward trajectory in India's labour force participation rate (LFPR) and worker-to-population ratio (WPR) alongside a marked decline in the unemployment rate (UR) between 2017–18 and 2023–24. LFPR rose from 49.8% in 2017–18 to 60.1% in 2023–24, while WPR climbed from 46.8% to 58.2% over the same period. These gains reflect the dual impact of post-pandemic recovery, reviving economic activity and encouraging more individuals to seek and secure work, and ongoing formalisation initiatives that have expanded access to stable employment.

Concurrently, the unemployment rate fell steadily from 6.0% in 2017–18 to just 3.2% in 2023–24, underscoring stronger job absorption in the labour market. The convergence of higher participation and employment ratios with a lower unemployment rate suggests that not only are more people entering the workforce, but a larger share of them are finding productive employment. Together, these trends signal the robustness of India's labour market turnaround and its capacity to generate sustainable jobs across urban and rural sectors.

Formal Sector Expansion and AI's Transformative Potential

India's formal sector has witnessed robust growth, evidenced by a surge in net Employees' Provident Fund Organisation (EPFO) subscriptions from 61 lakh in FY19 to 131 lakhs in FY24. Between April and November 2024 alone, net additions reached 95.6 lakh, with nearly half (47 per cent) coming from workers aged 18–25. This youth-driven expansion signals a significant shift toward formal employment, granting more workers access to social security benefits and income stability. Government measures aimed at enhancing labour market formalisation—such as simplifying registration processes and incentivising employer compliance have been pivotal in accelerating this trend.

Looking ahead, the integration of Artificial Intelligence (AI) into India's labour market holds transformative potential. As a services-oriented economy with a young and adaptable workforce, India can leverage AI to boost productivity, improve job quality, and stimulate new employment opportunities. Realising these gains will require strengthened institutional frameworks to manage systemic challenges, alongside focused investments in education and skill development to prepare workers for AI-augmented roles. By embracing AI at this early stage of its global evolution, India can position its labour force for a future where human–machine collaboration drives economic growth and elevates labour market outcomes.

6. CONCLUSION

This study has demonstrated that India's external sector exhibited remarkable resilience in 2024–25, underpinned by a robust services trade surplus and record remittance inflows.

Despite a modest 1.6% year-on-year growth in merchandise exports during April–December 2024 and a widening merchandise trade deficit driven by a 5.2% rise in imports, the services sector's surplus—anchored by India's position as the seventh-largest global services exporter—helped contain the current account deficit (CAD) to just 1.2% of GDP in Q2 FY25. Private transfers, with India leading the world in remittance receipts, further bolstered external balances, underscoring the diversification of India's foreign exchange earnings.

On the capital account front, gross FDI inflows grew by 17.9% year-on-year in April–November 2024, reaching levels only second to FY21, even as repatriations rose by 33.2%—a sign of maturing investor confidence rather than capital flight. The moderation of net FDI to USD 15–17 billion in FY25 reflects healthy exit opportunities, while net FPI inflows, though volatile, were supported by India's inclusion in the JP Morgan EM Bond Index and contributed to a peak foreign exchange reserve level of USD 704.9 billion in September 2024. Reserve coverage of 90% of external debt and over ten months of import cover provide a formidable buffer against external shocks.

Domestically, the banking sector's double-digit credit growth moderated in response to high base effects and targeted regulatory measures, such as the RBI's risk-weight hike on unsecured retail loans. Housing and services remained the primary drivers of credit expansion, while industrial credit began to recover gradually. Simultaneously, formalisation efforts yielded a more stable employment environment: the unemployment rate fell to 3.2% in 2023–24, labour force participation rose to 60.1%, and net EPFO subscriptions more than doubled from 61 lakh in FY19 to 131 lakh in FY24.

Looking ahead, India's external and financial sectors stand on solid ground but must navigate evolving global trade and technological landscapes. Short-term strategies should emphasise export diversification across chemicals, machinery, textiles, and electronics, while medium-term efforts target market share expansion. Over the long term, strategic partnerships in high-value domains such as biotechnology, semiconductors, space, and quantum technologies—alongside skill development for an AI-augmented workforce—will be critical. By leveraging these strengths, India is well-positioned to sustain growth, deepen formalisation, and enhance resilience in an increasingly interconnected global economy.

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About the Author

Dr. Amrit Varsha is currently working as a Guest Teacher in the Department of Economics, Marwari College, Bhagalpur under T.M. Bhagalpur University. She has been actively engaged in teaching at the undergraduate level, where she is dedicated to imparting knowledge and building strong academic foundations for her students. Alongside her teaching career, she has also contributed to the field of research by publishing multiple research papers in reputed national journals, reflecting her academic commitment and scholarly pursuits in economics.