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India's Economy in the last decade: A view through Flow of Funds

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1. Introduction

The Flow of Funds (FoF) tradition begins with the simple insight of the conservation of money values-namely that any monetary transaction has a sender and receiver, and to the extent that a monetary obligation remains in the system, it is represented as both a borrowing and lending relationship and should be recorded as such. Additionally, for every economic unit in society, total sources of funds must equal total uses of funds, and these relations must hold consistently across sectors.

In the late 1940s, Morris Copeland sought to formalize this intuition in his pioneering work, *Tracing Money Flows through the United States Economy* (1947), later expanded into his 1952 volume (Copeland, 1952). Faced with the impossibility of observing every transaction in a modern capitalist economy, Copeland proposed a different strategy: rather than follow individual exchanges, one could divide the economy into major institutional sectors and map the aggregate financial flows between them

The FoF framework that was developed consists of linked sectoral balance sheets recording the sources and uses of funds across households, firms, governments, and financial institutions. On one side are the liabilities and obligations incurred by each sector; on the other are the assets accumulated and claims acquired. Typically, these accounts capture both the aggregate flows of funds and the composition of financial instruments through which those flows are mediated. Organizing macroeconomic analysis around these balances allows us to identify where claims are accumulating, where leverage is rising. Several macroeconomic forecasters have used such an approach to identify where fragility may be emerging[1].

In 1955, C.D. Deshmukh backed the construction of a systematic money flows account for the Indian economy (Sreekumar, 2024). Deshmukh's intervention came within three years of Copeland's work, placing India among the earliest countries outside the industrialised world to attempt such an exercise. The RBI has published flow of funds data since 1967, with the series stretching back to 1951-52, making it one of the longest continuous financial accounts among developing economies.

Despite its obvious value in assessing macroeconomic patterns, the Flow of Funds in India have been seriously underused. Narayan et al (2018) remains one of the only papers that have tracked macroeconomic patterns over the long term. Working with RBI flow of funds data from 1955 to 2015, Narayan et al described several structural regularities during the period. First, the government sector has been the largest net deficit sector throughout. The household sector has

[1] See for example, Dotsis (2026)

been the largest net surplus sector consistently. Corporate deficits, small and stable before liberalisation, exploded post-1991 and mirrored government deficits in ways that suggest both were being financed by the same deepening pool of household and foreign savings. Additionally, and critically, the household portfolio was strikingly stable: roughly 60% of household funds flowed to deposits and currency, with the remainder divided between provident funds, life insurance, and small direct holdings of government claims.

Our current paper attempts to take this descriptive story forward to the period 2012 to 2014. These have been eventful years in India's financial system with a success of compressed events: the twin balance sheet crisis of roughly 2015-2018, in which simultaneously over-leveraged corporates and NPA-burdened banks choked credit creation; demonetisation in 2016, which produced an extraordinary one-time disruption to cash holdings and deposit flows; the IL&FS collapse of 2018 and the NBFC liquidity crisis that followed, which revealed that a systemically important shadow banking sector and above all the COVID-19 shock of 2020-21, which generated the largest single-year movements in sectoral positions in the entire post-independence data series. On top of these cyclical dislocations sits what is clearly, according to anecdotal data a structural transformation in household portfolio stability. The SIP revolution, the formalisation of savings through Jan Dhan and direct benefit transfers, and the maturation of the mutual fund and insurance industries have together prima facie had potential impacts on the household balance sheet.

In this paper, we use the latest FoF data release available from the RBI for the period FY2011-12 to FY2023-24 and formally titled, *Financial Stocks and Flow of Funds of the Indian Economy.* Several of our figures are normalized by GDP (series base year being FY2011-12). The paper is organized as follows. In the next section, we provide a descriptive analysis of sectoral balance sheets. The aim here is to mainly understand how sectoral net worth as well as gross financial assets and liabilities have evolved from FY2011-12 to FY2023-24. We follow this up with a section on several macroeconomic insights that we draw from the FoFs data.

2. Sectoral Analysis

I. Households

We begin with the largest and most consistent source of funds-the household sector (see fig. 1). Households are India's dominant financial creditors and have continued to increase their aggregate net holdings against the other sectors. Net financial worth has risen from 74.7% of GDP in FY2011-12 to 88% in FY2023-24. Gross financial assets stand at 129% of GDP. The pandemic year produced a spike to 100% NFW — the largest single-year jump in the series — before normalising.

At the same time, we observe a marked rise in the size of their balance sheets, especially post 2020 when both their liabilities and assets have increased. Household loans rose from 34% of GDP in FY2018-19 to 41% by FY2023-24, a seven-percentage-point increase in five years. The optimistic reading is that this reflects increased access to formal credit for previously underserved households. Another line of thinking is that credit is substituting for income growth, financing consumption that current earnings cannot support. Certainly, the RBI's decision to raise risk weights on unsecured consumer credit in late FY2024-25 suggests that the supervisor is not dismissing this possibility.

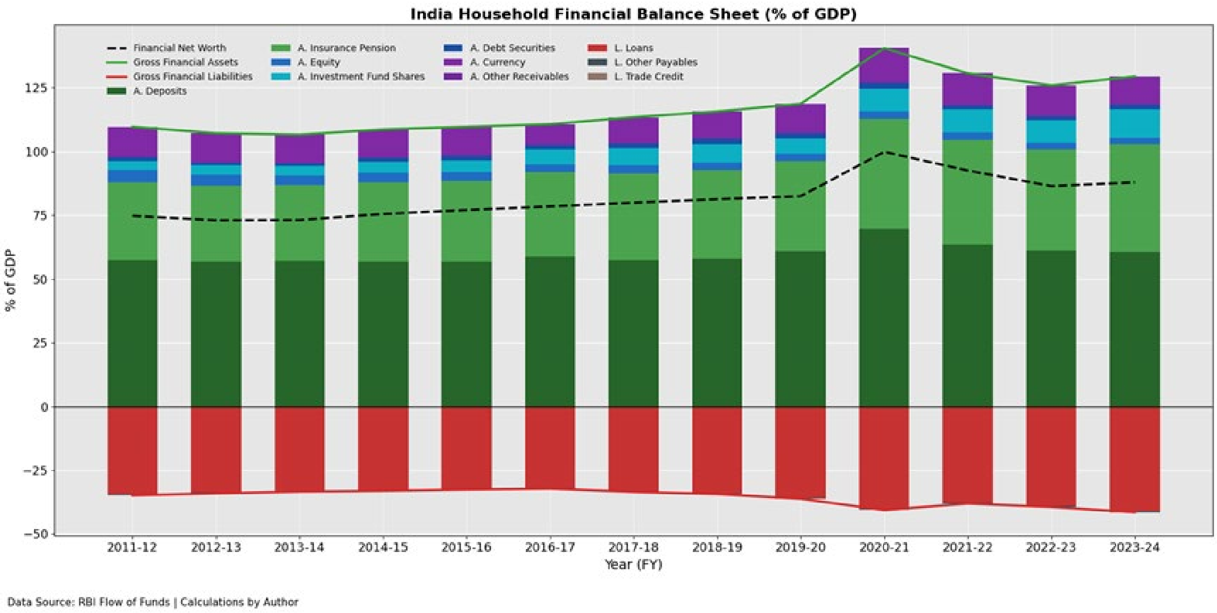


Figure 1: Household Balance Sheet

The more substantively important change, however, is perhaps compositional (see, fig. 2). Against the fifty-year baseline of portfolio stability, the relatively quick movement into new uses is quite unusual. Bank deposits remain the largest asset, and in fact were at its highest in 2020, the year of the pandemic. Since then, however, bank deposits have declined from being 51.2% of the household asset portfolio in FY2019-20 to 46.8% in FY2023-24. Over the same period, investment fund shares went from being 5% to 8.7% of the asset portfolio and insurance and pension holdings from 29.8% to 32.7%. This is perhaps a combination of more attractive instruments as well as more formalization. This financial deepening reflects perhaps a change in household attitudes towards risk as the sector moves from insured, stable deposits to market-linked instruments whose returns are contingent. It should also be remembered that India was one of the best performing on equity valuations in this period. The latest decline in stock market indices since the beginning of 2026 will test households with less obliging returns. Whether this will result in a reversal in the SIP revolution in the short to medium term remains to be seen.

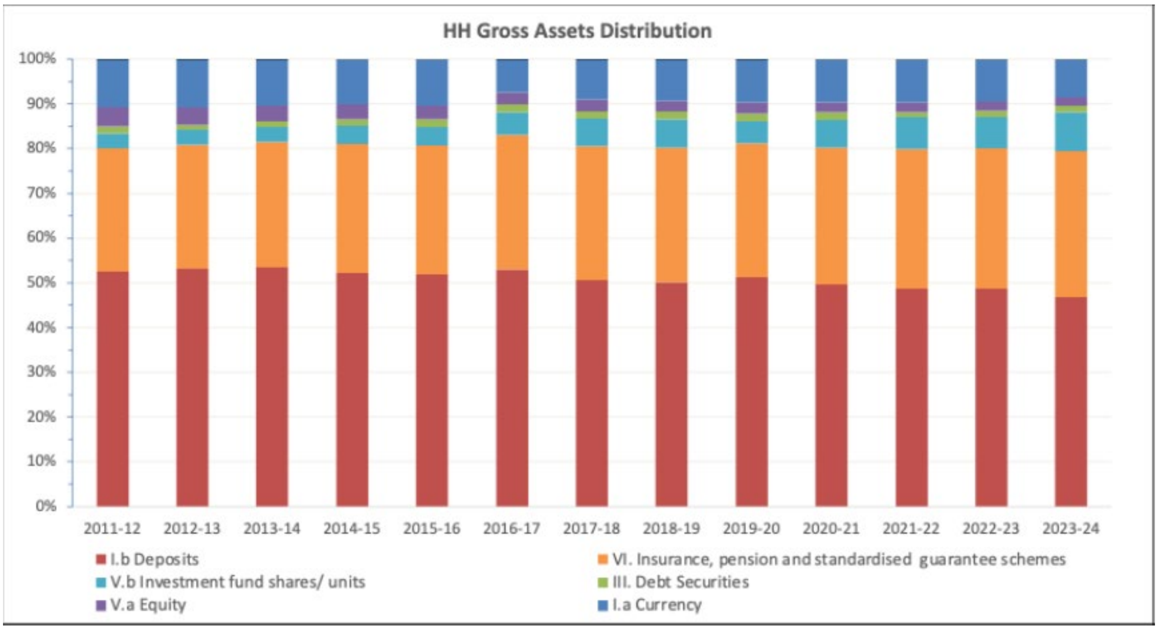


Figure 2: Household Gross Financial Asset Distribution

Figure 1 also suggests some evidence of demonetization in the data. In FY2016-17, currency holdings diminished from 11.23% in FY2015-16 to 7.9% of GDP in FY2016-17, recovering only by FY2019-20 to then remain steady around 11.8%. As such, cash remains central to the household portfolio.

II. Government

The NFW dashed line in the government chart (see, fig. 3) drifted gradually from around -47% of GDP in FY2011-12 to -53.8% by FY2019-20, a slow deterioration reflecting deficits that were being consolidated but never eliminated and accelerated during the pandemic. While the government has always been an important net borrower, during FY2020-21 the NFW went from -53.8% to -68%, a 14-percentage point difference. But there has been subsequent consolidation after, taking the NFW to -60.8% by FY2023-24. The government has, over this period, maintained substantial fiscal discipline. With private investment being slow however, this consolidation withdraws demand from the system.

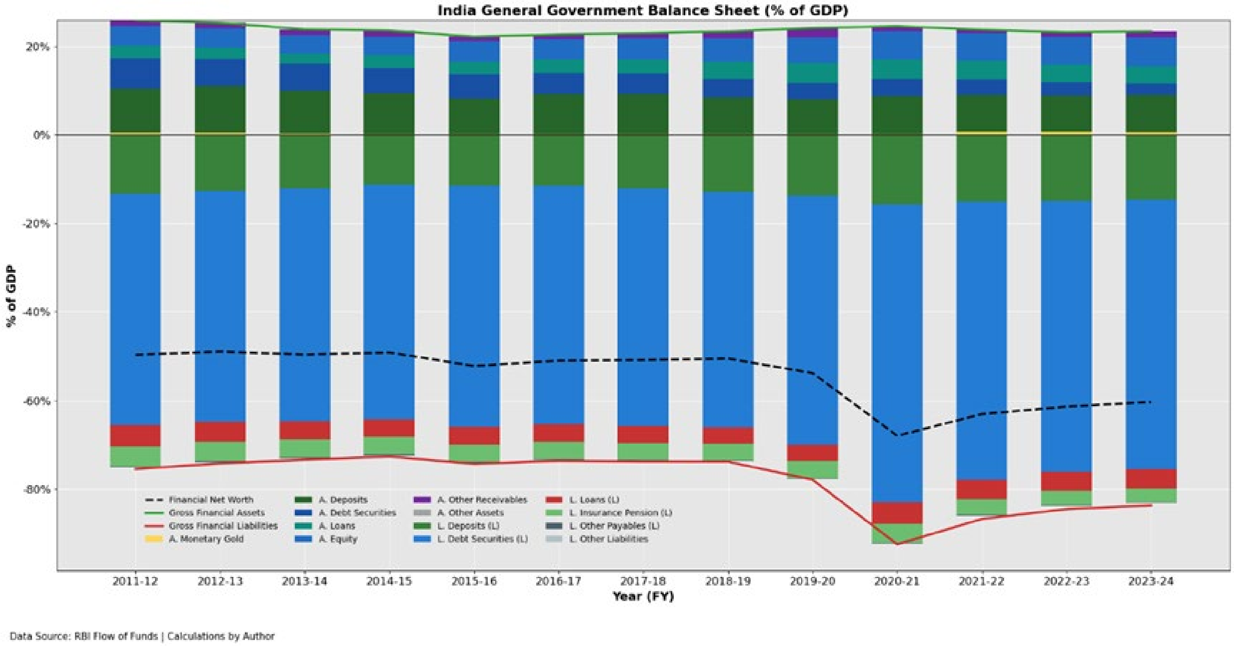


Figure 3: General Government Balance Sheet

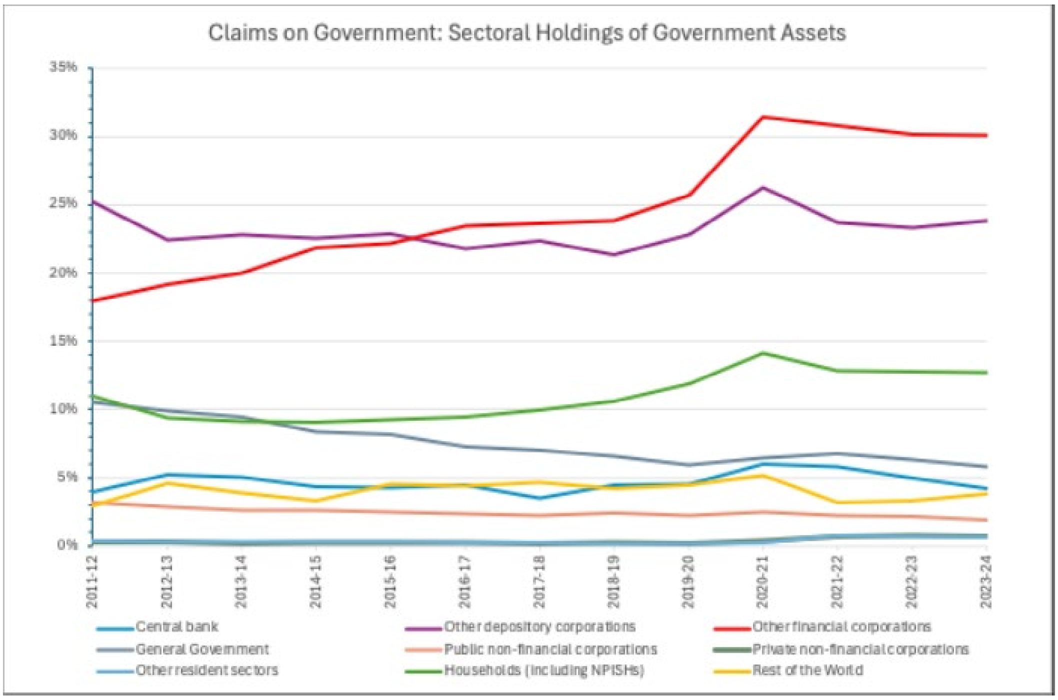


Figure 4: Sectorial Claims on Government

There has however been a somewhat dramatic compositional change (see, fig. 4). Before liberalisation, the answer was straightforward: nationalised banks, directed by regulation to absorb government paper, channeled 4-6% of GDP annually to the state under a regime of captive intermediation – what was termed financial repression. By FY2023-24 OFCs (mutual funds, insurance companies, NBFCs, pension funds, housing finance companies (HFCs)) now hold 30% of GDP in government securities, up from 18% in FY2011-12. They have displaced banks as the dominant creditor to the Indian state. Of course, banks, at 23.8% of GDP, remain significant. Household holdings have remained relatively steady rising to 14.1% of GDP in FY2020-21 before settling at 12.7% in FY2023-24.

The significance of this structural shift runs in both directions. For the government, a more diversified creditor base reduces dependence on any single sector and arguably deepens the market for its paper. For the financial system, it means that the solvency and liquidity of the non-bank complex — mutual funds, insurance, pension funds — is now directly tied to the performance of government securities in a way it was not a decade ago. The move to a more capital based financial system continues unabated.

III. The Non Financial Corporate Sector

The non-financial corporate sector has seen a contraction in its overall balance sheet over this period, apart from an expansion in 2021, there has been a steady deleveraging. Much has been written about this in the business press, but the deleveraging began in the wake of the Reserve Bank of India's Asset Quality Review (AQR) in 2015, where scheduled commercial banks (SCBs) curtailed credit to much of the corporate sector (see for example Dasgupta and Jayadev, 2026). This however has led over time to a cleaning up of balance sheets, and by FY2023-24, debt-equity ratios and interest coverage ratios among large-listed corporates were at multi-decade favourable levels (see, fig. 5).

The private NFC balance sheet shows gross liabilities running from -157% to -129% of GDP in the pre-pandemic years, dominated by bank loans. The NFC sector's net financial position remains substantially negative in absolute terms, and the gross liability line even after deleveraging remains deep at -109% of GDP in FY2023-24. The public NFC chart is more straightforward (fig. 6). State-owned enterprises have deleveraged steadily, with gross liabilities declining from around -13% of GDP in FY2011-12 to -8.1% by FY2023-24. In both cases however, there has been a general contraction on both sides of the balance sheet.

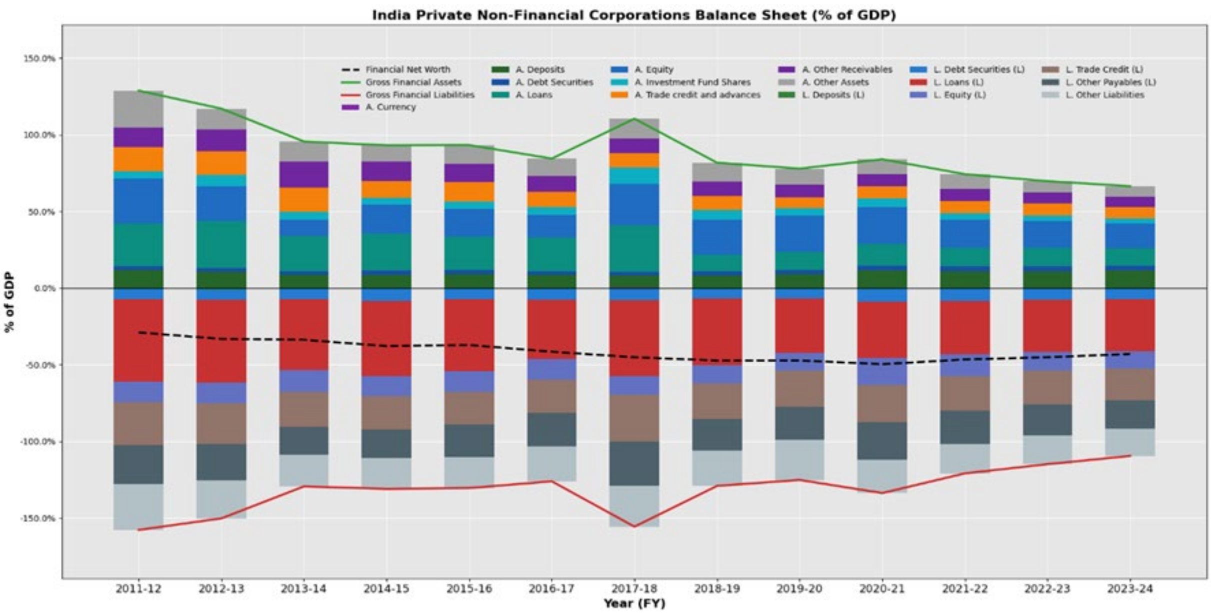


Figure 5: Private Non-Financial Corporations (NFCs) Balance Sheet

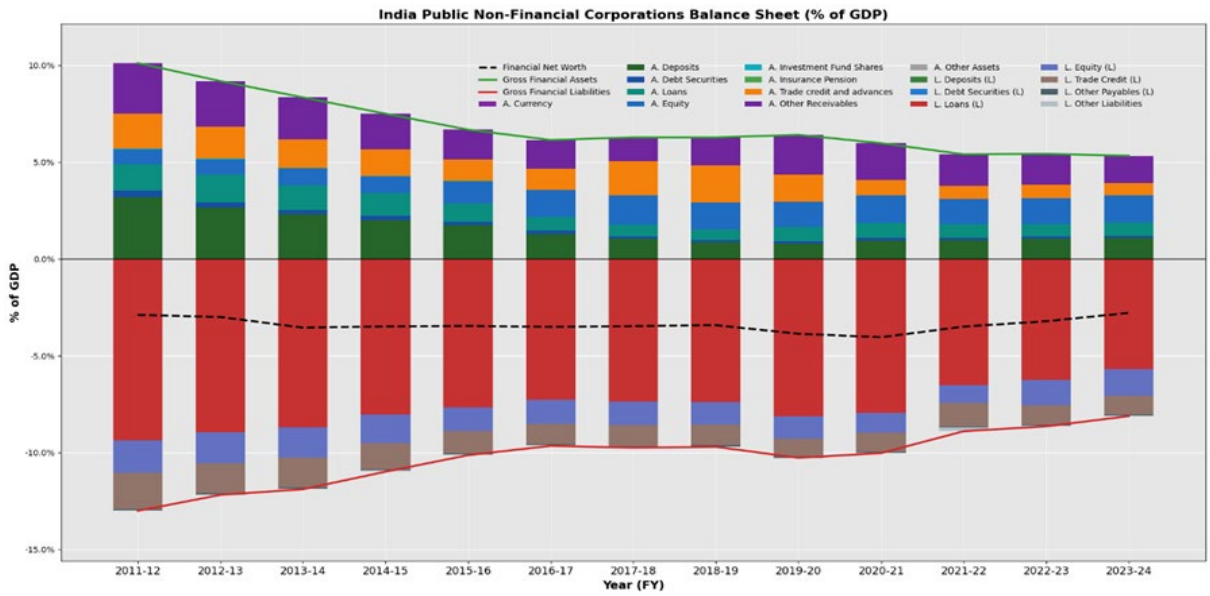


Figure 6: Public Non-Financial Corporations (NFCs) Balance Sheet

NFC net borrowing, which is, in effect, the financial counterpart of private fixed investment, was above 7.5% of GDP in four out of the six years from FY2012-18 (see, fig. 7). Then due to the twin balance sheet crisis and AQR pressures, it started getting compressed in the years leading up to the pandemic year FY2020-21 when it hit a low of 2%. It recovered post-pandemic but only modestly, averaging 3.9% of GDP over three years from FY2021-24. A clean balance sheet is a necessary condition for investment, not a sufficient one. Investment responds to expected demand. With household consumption growth partly credit-driven (more on this below), fiscal policy consolidating, and export demand constrained, and with capacity utilization at low levels one may argue that the demand environment has not provided the signal that would turn improved corporate financial capacity into actual capital expenditure. As such, despite a capacity for expanding their balance sheets and increasing economic activity, investment has not been forthcoming. The signature of this pattern is evident in the aggregate balance sheets.

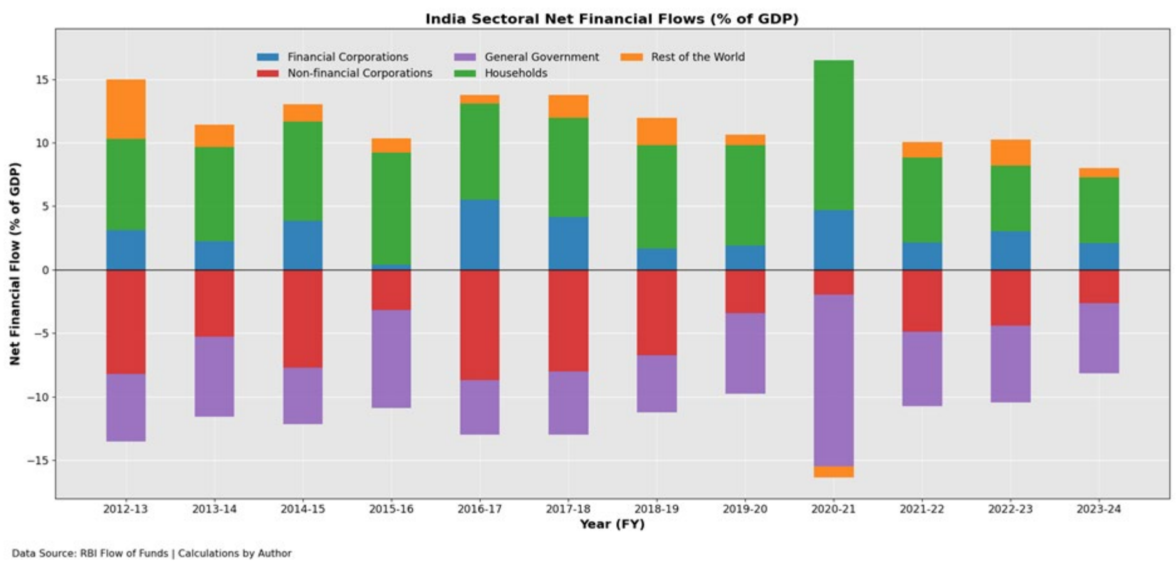


Figure 7: Sectoral Flows

IV. Financial corporations

The FC sector is the intermediary core of the Flow of Funds. The aggregate FC balance sheet runs at roughly 190-200% of GDP on both the asset and liability sides through most of the period, with a sharp expansion in the pandemic year before settling back (see, fig. 8). The thin positive NFW of around 25-30% of GDP suggests, as with the standard expectation for financial intermediaries, that the equity cushion is small relative to the claims they hold and owe.

As with the household sector, the more important story is the change in the composition of liabilities. In FY2011-12, the dominant liability of the financial sector is deposits — the banking system is the primary destination for household savings and the primary source of system funding. While it remains dominant in FY2023-24, investment fund units and insurance-pension obligations have grown substantially as a share of the FC sector's liabilities, directly tracking the shift in household saving away from bank deposits. The financial sector is being refunded from a different source. This in turn suggests a slightly more dynamic system than before. Investment fund units for example are redeemable on demand and sensitive to market conditions. The funding base of India's financial system has become more performance-contingent than it was a decade ago.

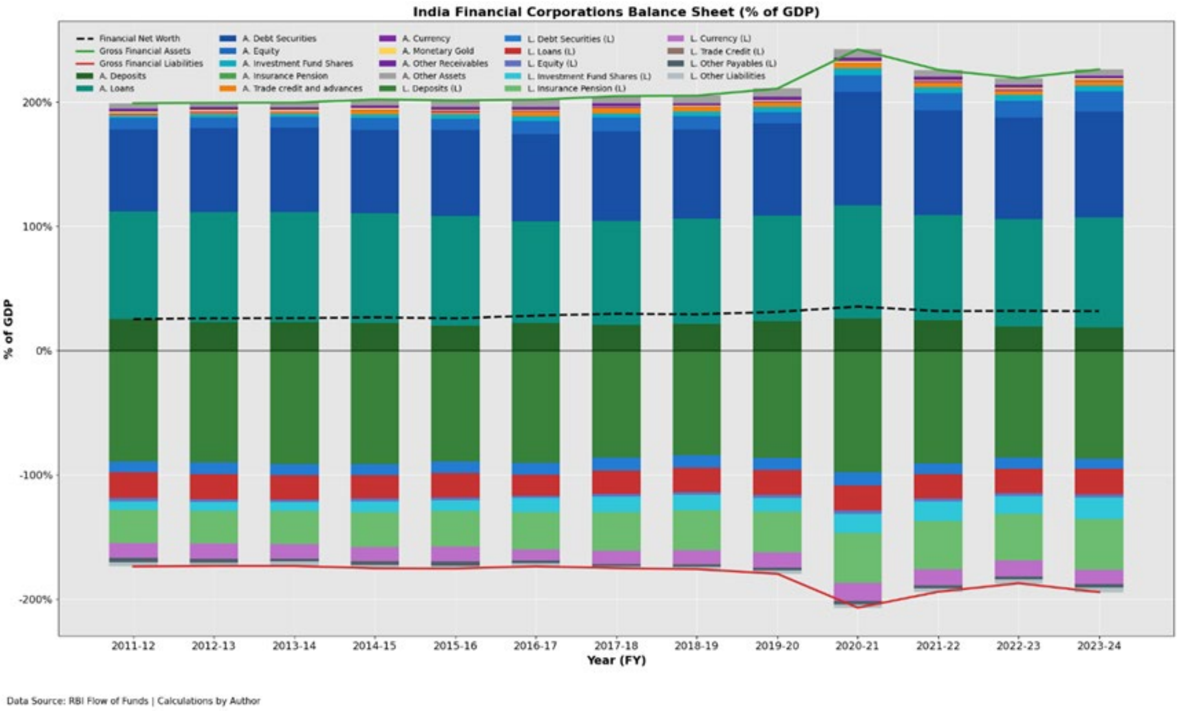


Figure 8: Financial Corporations (FCs) Balance Sheet

The largest component of the financial system is still depository institutions which comprise SCBs and other banking institutions (e.g., cooperatives). It constitutes roughly half of the overall balance sheet of the financial sector and moves from roughly 114.2% of GDP in gross assets in FY2011-12 to 109.5% by FY2023-24. The NFW dashed line sits flat at 9.4% of GDP throughout the entire period with virtually no movement, again suggesting narrow equity cushions as appropriate.

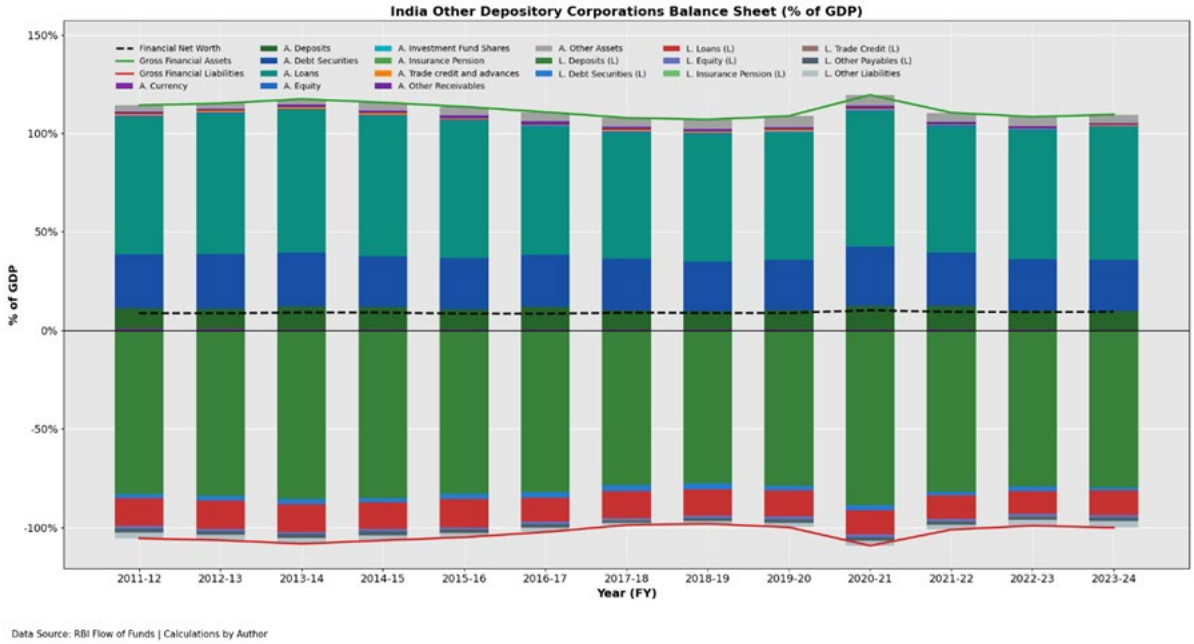


Figure 9: Other Depository Corporations (ODCs) Balance Sheet

For ODCs, the asset composition is indicative of the underlying story (see, fig. 9). Loans are the dominant asset throughout but shrinks from FY2014-15 onwards through to FY2018-19 — the period when NPA recognition was forcing banks to provision rather than lend, and new credit growth stalled. During the same years debt securities grows. Banks that could not lend safely were parking liquidity in sovereign paper. This is the evidence of the prolonged period of credit rationing to the private sector that the investment slowdown of FY2015-FY2020 directly reflects.

Post-pandemic, gross assets have settled back to around 110% of GDP. Credit growth has resumed and NPA ratios have fallen to below 4%. But the structural position of the ODC sector in the overall financial system has shifted. In FY2011-12, ODCs held roughly 114% of GDP in assets against the OFC sector's 61%. By FY2023-24, ODCs are at 109% and OFCs are at roughly 93%. The banking sector remains the largest single component of the financial system, but the gap has narrowed substantially over twelve years from 53 to 16-percentage points, and the direction of travel is clear. Banks are being gradually displaced as the only intermediary of both household savings and government financing, in favour of a more capital market based financial system

This can be seen in the OFC chart (see, fig. 10)-- mutual funds, insurance, pension funds–where there is clearly the most dynamism. These institutions have seen substantial increase in their balance sheets. The rate of growth in assets noted above visibly steepens from FY2016-17 onwards, coinciding with the acceleration of SIP adoption. On the asset side, debt securities dominate throughout. OFCs are the largest funder of both government securities and corporate bonds in the economy, which is why the shift in its composition matters for fiscal financing and corporate credit pricing alike. On the liability side, insurance-pension obligations and investment fund unit liabilities grow proportionally. The OFC sector's NFW has also risen from around 10% of GDP in FY2011-12 to 16.6% in FY2023-24.

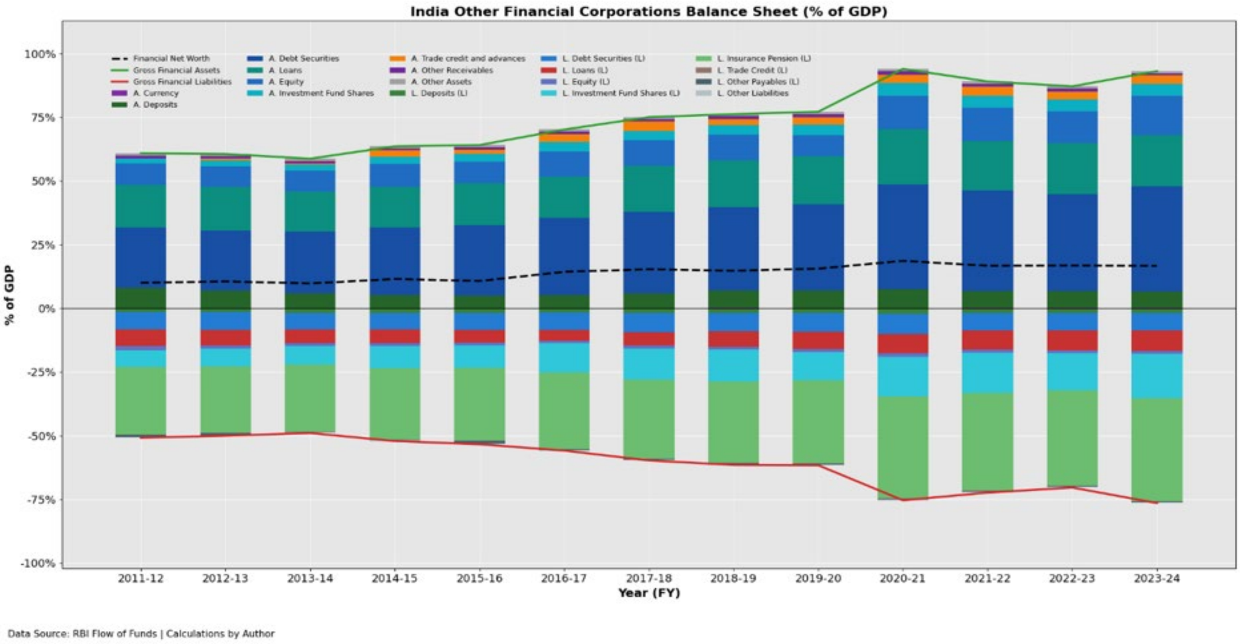


Figure 10: Other Financial Corporations (OFCs) Balance Sheet

The NBFC balance sheet is the smallest of the components of the overall FC balance sheet (see, fig.11). It is flat at around 11.4% of GDP in gross assets from FY2011-12 through FY2016-17, then rises clearly to 12.7% by FY2018-19, peaks at 15.1% in FY2020-21 to then land at 14.2% by FY2023-24. Gross liabilities track this, deepening from around -8.8% of GDP in FY2011-12 to peak at -11.3% in FY2020-21, and land at -10.7% by FY2023-24. The NFW averages at 2.5% of GDP pre-pandemic but then rises to 3.5% post-pandemic.

In terms of assets-NBFCs hold almost entirely loans throughout. NBFCs are credit intermediaries; they do not hold significant investment portfolios. Their growth reflects expanding loan books in vehicle finance, real estate, microfinance, and mid-market corporate lending. NBFC funding comes from two sources: borrowings from banks and debt securities issued into wholesale markets — commercial paper and debentures placed primarily with mutual funds. Both are short-duration and rollable. The IL&FS default in September 2018 was a classic example of the uncertainty and fragility of such a model. Since FY2021-22 NBFC growth has modulated but the liability structure is unchanged. While it is not a large sector in the aggregate, it has now become substantially more important and larger than in FY2011-12.

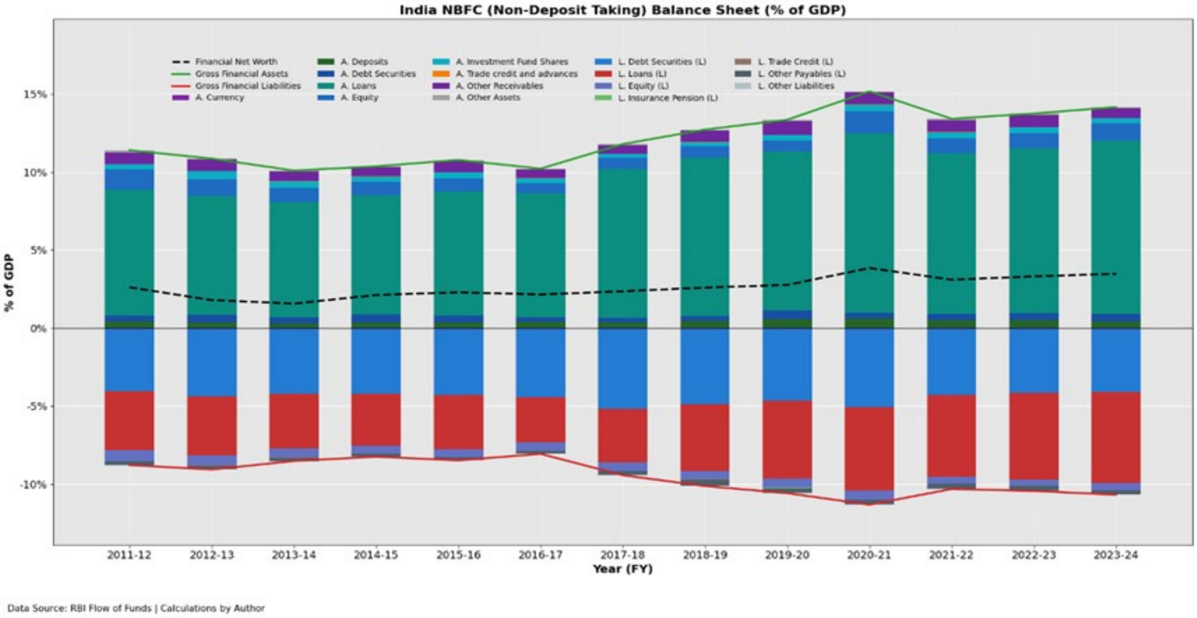


Figure 11: Non-Banking Financial Corporations (NBFCs) Balance Sheet

V. Rest of the World

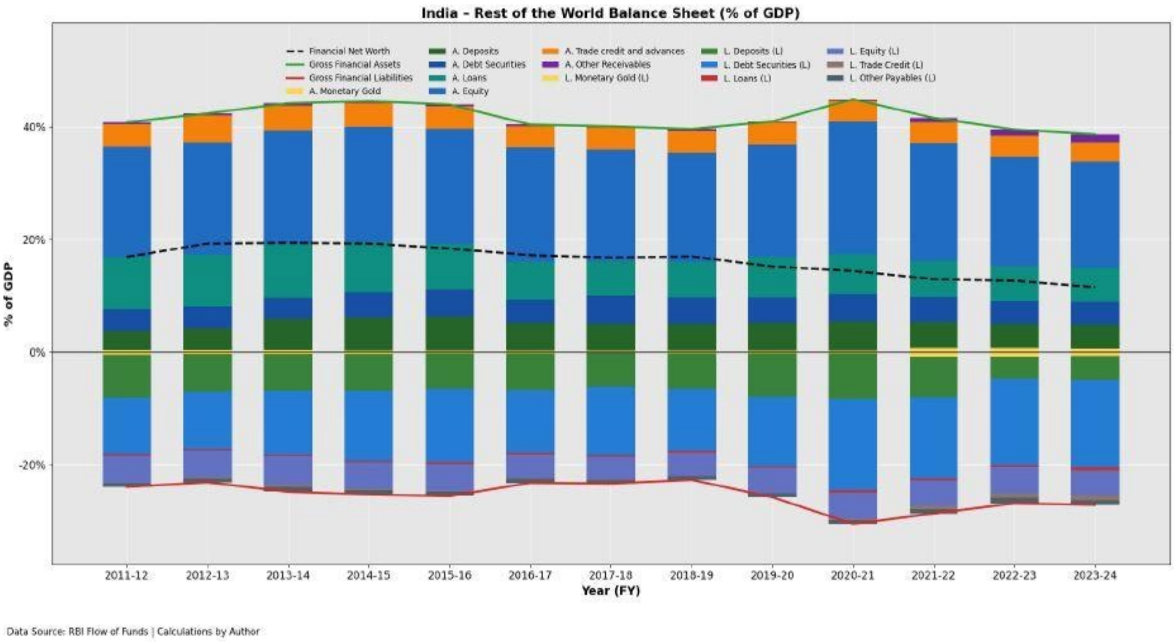


Figure 12: Rest of the World Balance Sheet

The RoW balance sheet is the global economy's balance sheet with respect to India (see, fig. 12). The asset side (in this case representing foreign claims on India) has been stable, though declining from 40.8% of GDP in FY2011-12 to 38.6% by FY2023-24. Equity is the dominant instrument, accounting for roughly a third of total foreign claims; this covers both FDI stocks and portfolio equity (FPI). Debt securities, loans, and trade credit make up the remainder in roughly equal and smaller shares. Over the same period, the liability side (India's own claims on the rest of the world) has grown slightly from around 23.9% of GDP to 27.1%, driven mainly by a steady accumulation of reserve assets. Since this is a substantial increase in the liabilities of the ROW, its net financial worth has consequently declined and India's net external liability position is narrower than it was.

However, from India’s viewpoint, because the asset side of the RoW is heavily in equity, it is footloose. Portfolio flows respond to global risk sentiment, dollar cycles, and relative valuation; FDI, while stickier, has been declining as a share of GDP since the mid-2010s. While this is not shown in the FoF, the Q4 FY2024 and FY2025 experience wherein FPI outflows ran at their largest sustained pace in years, driven by perhaps India's own premium valuations after a long bull run and global uncertainty spiked. The current account implications are direct. The structural CAD means the external sector is a structural net lender to India, and the terms on which it lends (through easily withdrawable equity makes the external constraint more binding.

3. Insights

The preceding sections examined the financial flows underpinning India's recent growth trajectory. The natural question is how these financial changes are reflected on the real side of the economy. We here describe some 'real side' stories that are consistent with the financial data. Schematically, we describe the household sector, the NFC sector, the FC sector and the external sector in turn.

I. Households: Stability, Diversification and the Beginnings of Fragility

Household consumption has been the mainstay of the Indian economy. It has functioned not merely as a component of GDP but as a crucial anchor for economic activity. Over this period, personal final consumption expenditure (PFCE) increased from 56.2 percent to 61.4 percent of GDP. The resilience of household consumption over the past decade is particularly striking given the weak growth of labour incomes. A growing body of evidence suggests that real wages for large segments of the workforce, especially informal and rural workers, have remained largely stagnant since the mid-2010s. Drèze and Das (2024), for example, document a virtual stagnation of real wages over the last decade, while other studies similarly find limited growth in inflation-adjusted earnings across much of the labour market (Tripathi et al, 2026). Yet household consumption continues to drive aggregate demand at a time when both private investment and exports face periodic headwinds. The divergence between sluggish income growth and resilient consumption suggests that households increasingly relied on alternative sources of spending power, including expanded access to credit and, more recently, gains in financial asset values. This does not imply that borrowing alone drove consumption growth, but it does indicate that household balance sheets became increasingly important in sustaining aggregate demand. As a result, the stability of consumption—and therefore of the broader economy—has become more closely tied to financial conditions than was previously the case.

In this regard, it is instructive to note that Household liabilities remained below 35 percent of GDP until the pandemic but rose sharply thereafter, reaching 41 percent by FY2023–24. The instrument decomposition of household liabilities shows that these consist overwhelmingly of loans. In FY2023–24, most household debt continued to be held by ODCs, although OFCs have become increasingly important relative to FY2011–12. Within the latter category, NBFCs and HFCs now play a central role in financing automobiles, housing, and household durables.

The rise in household indebtedness is only one side of a broader transformation in household balance sheets. Just as liabilities have become larger and more closely tied to the financial system, the composition of household assets has also shifted. Traditional stores of wealth such as deposits and physical assets continue to dominate, but an increasing share of household savings is now intermediated through financial markets. Consequently, household welfare and spending decisions are becoming more sensitive not only to credit conditions and debt-service burdens, but also to fluctuations in asset prices. The result is a household sector that is more deeply integrated into India's financial system on both sides of its balance sheet, creating new channels through which financial shocks can affect aggregate demand.

A second source of potential vulnerability then arises from changes on the asset side of household balance sheets. Together, rising leverage and growing exposure to equity markets have made household spending increasingly sensitive to financial conditions, introducing vulnerabilities that were far less significant a decade ago. That said, it is not clear that this constitutes any macroeconomic risk in a significant sense. As noted earlier, investment fund shares—primarily mutual funds and SIPs—rose from 3.3 percent of household financial assets in FY2011–12 to 8.7 percent in FY2023–24. A growing share of household wealth is therefore now dependent on asset market conditions. By FY2023–24, household holdings of investment fund shares amounted to 11.2 percent of GDP. So a very rough estimate might suggest that a 20 percent equity-market correction—of the sort experienced in early 2026—would reduce household financial wealth by roughly 2.2 percent of GDP, generating a negative wealth effect with potentially significant consequences for consumption.

II. Tepid investment

The key macroeconomic question of the moment is the continued lack of dynamism in private investment. Why has private investment remained so weak for so long? As noted above, net borrowing by non-financial corporations (NFCs)—the financial counterpart of private fixed investment—averaged just 3.9 percent of GDP during the three post-pandemic years from FY2021–24. This is difficult to reconcile with the strength of corporate and financial sector balance sheets. Banks are well-capitalized (fig. 13) and net NPAs are at historic lows, capital markets are deeper and more liquid, and corporate deleveraging is largely complete. The share of stressed NFCs, measured by an interest coverage ratio below one, has fallen from 18.8 percent during the NPA crisis to 10.2 percent (see, fig. 14).

The weakness of investment reflects the weakness of demand. Firms invest when they expect capacity utilization to remain high and future sales to justify new projects. Yet demand growth remains fragile across all three major sources. Household consumption has been resilient, but it is not clear that this is expanding and whether this can be seen as a long-term signal for capacity expansion. Fiscal consolidation has simultaneously reduced the contribution of government demand. External demand has also weakened: exports averaged 22.1 percent of GDP between FY2021–24, compared to 24.9 percent between FY2011–14. Our working hypothesis, consistent with this data, is that with uncertain demand firms have rationally preferred to accumulate liquid assets, and strengthen balance sheets rather than commit to large-scale capital expenditure. Clearly of course, this is different at the disaggregated level, but in the aggregate, the Flow of Funds data show this. Both private and public NFC balance sheets have contracted steadily over the past decade. This points to a reduction in the size and breadth of the corporate sector itself, at least in its financial footprint.

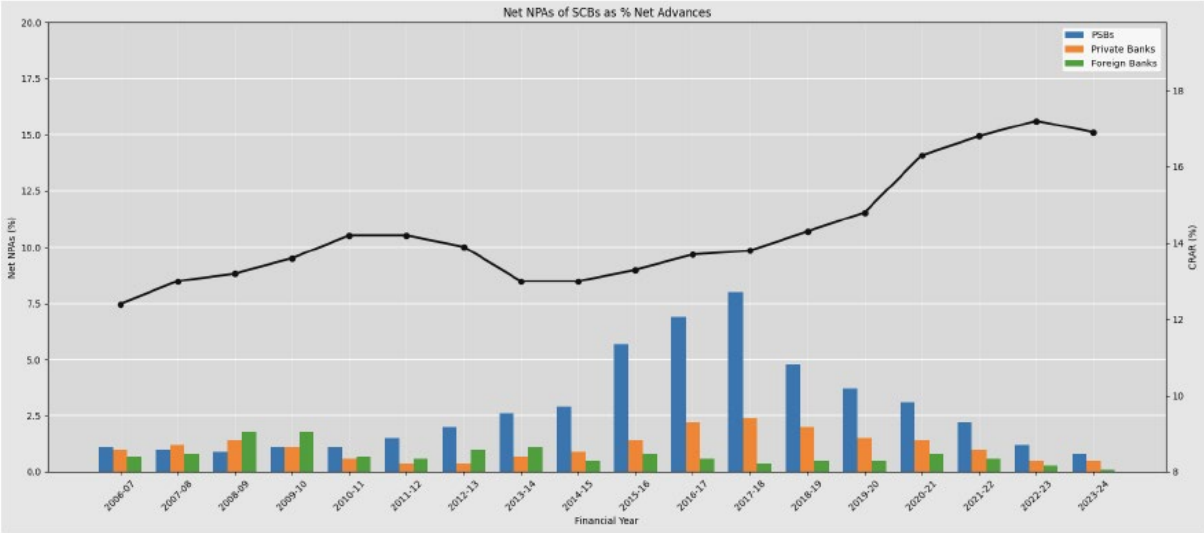
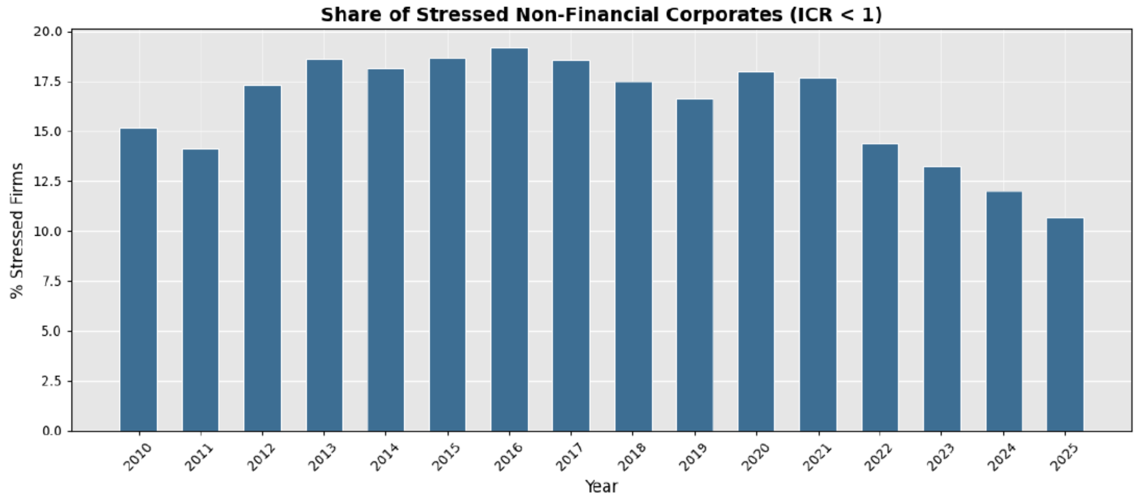


Figure 13: SCBs Sector Stress (Net NPAs as % Net Advances and Capital to Risk-Weighted Assets Ratio)



Source: Calculated from Prowess Dataset on NFCs

Figure 14: NFC Sector Stress (share of NFCs with Interest Coverage Ratio <1)

III. Capital markets transformation

One of the most consequential structural shifts the FoFs data reveals is the displacement of banks (ODCs) by non-bank financial institutions (OFCs) as the dominant holders of financial assets. In FY2011-12, ODC and OFC assets stood at 106.2% and 85.1% of GDP respectively; by FY2023-24 these had reversed to 89.4% and 112.5%.

The same reversal is visible in sovereign debt holdings. In FY2011-12, ODCs held 46.9% of outstanding government securities against OFCs' 24.1%. By FY2023-24 these shares had flipped to 38.9% and 42.9% respectively. Mutual funds, insurance companies, pension funds, NBFCs and HFCs have become the majority holders of sovereign debt..
The macroeconomic consequences of this shift cut two ways. On the positive side, a diverse and institutionalised holder base for government securities, rather than simple bank absorption, supports a deeper and more liquid sovereign bond market. Greater liquidity tends to compress term premia, potentially lowering the cost of government borrowing over time. But there is also a concern that runs in the other direction. If OFCs are allocating a growing share of their portfolios to G-Secs, less capacity remains for corporate bonds, which is already a relatively shallow market.

The FoFs data offer a suggestive indication here. In FY2011-12, ODCs and OFCs held 16.2% and 32.4% respectively of private non-financial corporations' debt securities; by FY2023-24 these shares had risen to 23.1% and 41%. The contrast with G-Secs is telling: OFC ownership of sovereign debt grew by 18.8 percentage points over this period, while their ownership of private corporate bonds grew by only 8.6 percentage points. While this is not crowding out in the conventional sense, the pattern does point to a capital-markets-based financial system in which the debt markets have absorbed sovereign debt disproportionately.

A further consequence concerns monetary policy transmission. Because a significant share of OFC demand for G-Secs may be driven by regulation rather than by market conditions alone, the long end of the yield curve is now shaped as much by institutional allocation rules as by monetary policy signals. The RBI retains firm influence over short-term rates, but the entire yield curve is in some sense maintained by the overall functioning of policy in a more direct manner than might otherwise be imagined[2].

IV. Rest of the World: The External Constraint Remains

The RoW balance sheet captures the financial relationship between India and the global economy. Foreign claims on India have remained large, though they declined modestly from 40.8 percent of GDP in FY2011–12 to 38.6 percent in FY2023–24. Equity is the dominant instrument, accounting for roughly one-third of total foreign claims and comprising both FDI and portfolio equity investments. Debt securities, loans, and trade credit make up most of the remainder. On the other side of the balance sheet, India's claims on the rest of the world increased from 23.9 percent to 27.1 percent of GDP, driven largely by the accumulation of foreign exchange reserves. As a result, India's net external liability position has narrowed over time.

Viewed purely through the financial balance sheet, this appears to be a story of increasing resilience. But the real-side picture is less reassuring. The fundamental feature of India's external sector remains a persistent current account deficit. Unlike the East Asian economies during their industrialization, India has not generated sustained export surpluses that would allow domestic growth to be financed through external demand. The rest of the world therefore remains a structural net lender to India.

The sustainability of this structural external position depends not only on the size of foreign financing, but also on its composition. The dominant foreign claim on India is equity, and while this does not create fixed repayment obligations it is also inherently mobile. The result is that a significant portion of the financing that supports India's external deficit depends on factors largely outside domestic control.

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[2] As YV Reddy (2009, 14) once put it: "While monetary policy influences aggregates, reality is often disaggregated. Hence, the RBI uses prudential regulatory policies to complement the monetary policy measures and objectives. It is pertinent that the lender of last resort function is not separate either from monetary and liquidity management or from financial regulation. Thus both monetary policy and prudential regulations are used as complementary tools to achieve the central bank objectives, and they both support and reinforce each other."

A country running persistent current account deficits must continually attract foreign capital to sustain growth. When capital inflows are abundant, the constraint remains largely invisible. Consumption can expand, investment can proceed, and imports of energy, capital goods, and intermediate inputs can be financed without difficulty. When inflows weaken, however, the external constraint reasserts itself. Exchange rate pressures emerge, imported inflation rises, financial conditions tighten, and domestic demand must adjust. The burden of adjustment ultimately falls on households, firms, and the state. India’s current and recent experience illustrates this vulnerability. During FY2024-25 and FY2025-26, foreign portfolio investors recorded their largest sustained outflows in years as global uncertainty increased and Indian equity valuations appeared stretched after a prolonged bull market. While reserve buffers and somewhat careful signalling have prevented disorderly adjustment, the episode underscored the structural vulnerability.

Relatively weak export performance limits the generation of foreign exchange through trade, while strong domestic demand continues to pull in imports. Capital inflows bridge the gap, but they do not eliminate it. As long as growth depends on external financing rather than export earnings, the current account deficit remains the economy's ultimate macroeconomic constraint, in the Thirlwallian sense (Thirlwall, 2012).

4. Conclusion

This paper has used India's Flow of Funds accounts to examine the transformation of the economy between FY2011-12 and FY2023-24. The value of the FoF framework lies not simply in its ability to describe financial transactions, but in the fact that financial balances provide a window into the underlying structure of production, income generation, spending, and accumulation.

The broad picture that emerges is of an economy that is more financially sophisticated, more deeply intermediated, and more integrated into global capital markets than it was a decade ago. But it is also an economy in which the contradictions of the last decade seem clear. The fundamental drivers of long-run growth remain unresolved. Private investment remains subdued, consumption has relied more on financial rather than income dynamics than in the past, and the external constraint continues to shape the boundary of macroeconomic expansion.

The balance-sheet repair of the last decade may therefore prove to have been a necessary condition for faster growth, but not a sufficient one. The challenge for the next decade is on the real side - resolving the impediments to sustained productive investment, rising incomes, and external sector resilience.

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