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Evidence from International Investment Position Indicator**

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ABSTRACT

This paper examines India's offshore status by analysing the cross-border financial activity using International Investment Position (IIP) based indicators and the role of GIFT IFSC. The study evaluates trends in international banking, external portfolio investment, and offshore mutual fund and asset management activities by employing filtered IIP measures. The findings of the study indicate a significant expansion in India's global financial linkages, particularly during the post-2020 period, and also an increased participation by non-bank entities. However, the asset composition has been skewed towards liquid instruments, and the liabilities continued to be the dominant part of the external balance sheet. The filtered IIP assets-to-GDP ratio remains relatively low throughout the sample period but exhibits a clear upward trajectory over time, showing increased outward portfolio investment and deeper engagement with global financial markets. The paper concludes that GIFT IFSC represents a hybrid financial centre with offshore characteristics within a regulated domestic framework.

Keywords: Offshore Financial Centres; International Financial Centres; International Investment Position; International Banking; GIFT IFSC

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India's Position in Offshore Finance: Evidence from International Investment Position Indicator

1. Introduction

The growing prominence of offshore financial centres (OFCs) has become one of the defining features of contemporary global finance. Over the past few decades, these jurisdictions have captured a substantial share of cross-border financial flows, prompting renewed academic and policy interest in understanding their role and implications. As noted by the International Monetary Fund, OFCs are no longer peripheral entities; rather, they form an integral part of the institutional architecture underpinning both domestic and international financial markets.

Historically, the rise of OFCs is closely intertwined with the evolution of the Eurocurrency market. In many ways, OFCs can be viewed as the geographical extension of this market beyond Western Europe. Their emergence reflects a pragmatic response by international banks and corporations to restrictive regulatory regimes imposed by sovereign governments, particularly during the 1960s and 1970s. Efforts by advanced economies to control capital flows, often motivated by concerns over balance of payments deficits and monetary stability, unintentionally encouraged financial activity to migrate offshore. As a result, banks increasingly routed deposits and lending through jurisdictions that offered regulatory flexibility and fewer constraints.

Several structural factors contributed to this shift. The imposition of capital controls and high taxation in OECD countries, combined with tighter monetary policies, created strong incentives for financial intermediation outside domestic systems. At the same time, the restoration of currency convertibility in Western Europe in 1958 facilitated cross-border transactions, while regulatory constraints such as the Glass-Steagall Act in the United States pushed banks to expand internationally. Together, these developments fostered a significant delocalisation of financial activity, giving rise to deeper and more liquid international currency markets. The scale of this transformation was striking. The Eurocurrency market expanded rapidly in 1970s, reflecting the growing importance of offshore intermediation. Over time, this activity spread geographically, with financial institutions establishing offshore operations in regions such as the Caribbean and Southeast Asia. These jurisdictions, shaped by global financial dynamics, are what we now recognise as modern OFCs.

In the Indian context, the emergence of the GIFT IFSC marks a significant policy shift towards integrating with global financial markets while retaining macroeconomic control. Established under the Special Economic Zone (SEZ) framework and operationalised with the creation of the International Financial Services Centres Authority (IFSCA) in 2020, GIFT IFSC represents India's first and only dedicated international financial services jurisdiction. It hosts a wide range of offshore-oriented activities, including international banking units, global exchanges, fund management

entities, and insurance and leasing businesses, thereby replicating many core functions traditionally associated with offshore financial centres (OFCs).

India's decision to adopt a single IFSC strategy rather than multiple competing centres reflects an understanding of the importance of agglomeration economies in financial services. Concentrating activity within one jurisdiction helps build liquidity, attract global talent, and enhance institutional credibility. While cities such as Mumbai and Bengaluru remain important domestic financial hubs, they do not qualify as IFSCs, as they lack key features such as foreign currency jurisdiction, regulatory segmentation, and tax neutrality. This deliberate differentiation underscores the policy intent to create a ring-fenced ecosystem capable of competing with established global financial centres.

At the same time, the rise of GIFT IFSC raises an important analytical question: does India now exhibit characteristics of an offshore financial centre? While GIFT incorporates several OFC-like features such as a non-resident focus and liberalised regulatory environment it operates within a broader domestic framework that prioritises financial stability and transparency. This duality makes India's approach distinct from classical OFCs. Consequently, assessing whether India is transitioning towards an OFC requires careful evaluation of both institutional design and measurable financial activity, particularly in terms of cross-border intermediation and external balance sheet dynamics.

This paper examines the positioning of GIFT IFSC as an emerging financial centre and evaluates the extent of India's offshore financial activity. Specifically, it assesses developments in international banking, external portfolio investment, offshore mutual funds, and asset management companies using International Investment Position (IIP)-based indicators. By employing filtered IIP measures, the analysis seeks to capture the scale and nature of cross-border financial intermediation and to infer the evolving offshore characteristics of India within the global financial architecture.

The remainder of the paper is structured as follows. Section 2 develops the conceptual framework of Offshore Financial Centres (OFCs) and International Financial Centres (IFCs), focusing on their definitions, distinguishing features, and classifications. Section 3 evaluates India's OFC status through a set of stylized facts on international banking, external portfolio investment, and offshore mutual fund and asset management activities, drawing on IIP-based indicators. Section 4 concludes with key findings and policy implications.

2. Conceptual Framework: OFCs Vs IFCs and Indicator for OFC Status

International financial centres (IFCs) evolved from domestic financial hubs that offered superior connectivity, strategic location, and efficient mechanisms for cross-border payments and trade finance, with leading examples including London and New York. While all countries engage in some international financial activity, IFCs are distinguished by the concentration and scale of such activities. Domestic financial markets primarily involve transactions between resident lenders and borrowers. In contrast, international financial markets encompass cross-border transactions: foreign-to-domestic, domestic-to-foreign, and foreign-to-foreign as shown in Table 1. The latter *entrepôt* or offshore transactions are particularly significant, as IFCs facilitate these

through intermediation, underwriting, placement, and trading of international financial instruments.

[Table 1]

2.1 Definition of OFCs

There is no universally accepted definition of an Offshore Financial Centre (OFC), despite extensive academic and policy efforts since their growing prominence in global finance in the 1970s. Related terms such as International Financial Centres (IFCs), International Banking Centres (IBCs), International Banking Facilities (IBFs), and offshore banking centres are often used interchangeably. The literature broadly distinguishes between conceptual definitions, typically proposed by academics, and operational definitions, advanced by institutions such as the IMF for empirical use. Across these approaches, three core characteristics consistently emerge: a primary orientation toward non-resident clients, a favourable and relatively light regulatory environment, and the presence of low or zero taxation regimes. Table 2 summarizes the key characteristics based on the conceptual definitions provided in the literature.

[Table 2]

2.2 Difference between Traditional IFCs and OFCs?

A historical perspective helps delineate the distinction between traditional international financial centres (IFCs) and the more recent phenomenon of offshore financial centres (OFCs). Prior to the expansion of the Eurocurrency markets, major IFCs were primarily net exporters of domestic capital, consistently acting as creditors to the rest of the world. This role was performed through multiple channels, including cross-border bank lending, underwriting and placement of securities for foreign issuers, secondary market investments in non-resident obligations, and foreign direct investment in productive assets abroad. Centres such as New York exemplify this model.

Some IFCs also function as *entrepôt* financial centres, providing access to deep and sophisticated domestic financial markets for both residents and non-residents. Their attractiveness lies in the scale, liquidity, and institutional strength of their markets, which facilitate efficient financial intermediation across borders.

In contrast, offshore banking is primarily oriented toward non-resident clients, with intermediation taking place in regulatory environments characterised by minimal taxation and limited controls. Offshore centres are typically insulated from domestic financial systems through regulatory and capital account segmentation. Unlike IFCs, their appeal derives less from market depth and more from regulatory and cost advantages. Table 3 provides a comparative framework for Traditional IFCs and OFCs.

While some centres may combine elements of both models, clear distinctions remain. For instance, New York continues to function predominantly as a traditional IFC with negligible offshore activity due to regulatory constraints and limited demand. By contrast, London represents a hybrid case, having transitioned from a traditional IFC to incorporating OFC features by leveraging regulatory arbitrage opportunities alongside its established financial infrastructure.

[Table 3]

2.3 Functional Classification of OFCs

Building on the literature (Dufey and Giddy, 1978; Abraham et al., 1993), offshore financial centres (OFCs) can be meaningfully classified according to the specific financial functions they perform. Historically, international financial centres emerged as locations for commercial banks to circumvent domestic regulatory constraints such as reserve requirements and liquidity ratios. These early centres were closely linked to the expansion of the Eurocurrency markets, facilitating time deposits and loans in convertible currencies. A key institutional advantage of offshore markets was their ability to provide a credible commitment to non-resident convertibility, ensuring freedom from exchange controls not only in the present but also in the future. Prominent early offshore banking centres included London, Nassau, and Singapore.

From the 1970s onward, the shift from bank-dominated systems to market-based finance enabled OFCs to diversify into specialised financial services beyond traditional banking. One major category is wholesale banking centres, which primarily engage in interbank transactions and play a central role in global liquidity management. These centres contributed to the emergence of benchmark interest rates such as LIBOR and SIBOR, which serve as key reference rates for a wide range of financial instruments, including floating-rate loans and interest rate derivatives.

Another important category is private banking centres, which cater to high-net-worth individuals and firms by offering confidentiality, legal certainty, and trust structures, often underpinned by common law traditions. Securities issuing centres provide tax-efficient environments and legal frameworks for establishing special purpose vehicles, supported by favourable withholding tax regimes and extensive double taxation treaties.

In addition, centres for collective investment undertakings specialise in fund domiciliation, balancing investor protection with managerial flexibility, as seen in Luxembourg, Dublin, and the Cayman Islands. International insurance centres, such as Bermuda, facilitate insurance and reinsurance activities through tailored regulatory regimes. Finally, incorporation centres offer low-cost company formation and flexible corporate governance frameworks, although these alone do not guarantee the emergence of a fully developed OFC. This functional differentiation as summarized in Table 4 underscores the evolving and specialised nature of OFCs within the global financial system.

[Table 4]

The functional classification of offshore financial centres (OFCs), while analytically useful, tends to be overly restrictive as it focuses on individual activities in isolation. In practice, OFCs are dynamic and continuously evolving, expanding their service offerings to enhance competitiveness. Much like multinational firms, OFCs seek to achieve competitive advantage through diversification, where the breadth and depth of services become key attractions for financial institutions and their clients. Over time, major centres such as London, Hong Kong, and Singapore have transitioned from predominantly bank-oriented hubs to multi-functional financial centres, playing

significant roles in capital markets, derivatives trading, and asset management. Accordingly, a more realistic classification recognises OFCs based on the range and sophistication of services offered as summarized in Table 5.

Within this framework, *entrepôt* financial centres represent the most comprehensive form, providing a wide array of financial services to non-residents through well-developed domestic financial systems. These centres combine strong institutional infrastructure with robust legal frameworks, enabling activities such as foreign exchange trading, wholesale banking, and increasingly, derivatives and capital market operations. Their attractiveness lies in offering integrated, “one-stop” financial services.

In contrast, booking centres primarily serve as locations where international financial transactions are recorded, with minimal linkage to the domestic economy. These jurisdictions function largely as conduits for global financial flows, and a significant portion of their activity may not be fully captured in international statistics, including those of the Bank for International Settlements.

A third category comprises international banking facilities (IBFs), which are regulatory enclaves established within domestic economies to conduct offshore banking activities. Found in countries such as the United States and Japan, these regimes aim to retain financial business domestically while insulating the local financial system from associated risks.

Finally, aspiring OFCs are jurisdictions that offer favourable legal, tax, or regulatory regimes to attract international financial activity, albeit with limited scale. Their emergence reflects the relatively low entry barriers to offshore finance and raises important questions regarding their long-term role in the global financial system.

[Table 5]

2.4 How GIFT is positioned as a Financial Centre?

The GIFT IFSC exhibits several characteristics of offshore financial centres (OFCs), yet it does not conform to the classical OFC model. It is more appropriately characterised as a hybrid, onshore International Financial Services Centre (IFSC) with offshore features as compared in Table 6. Classical OFCs are typically small jurisdictions oriented toward non-resident financial activity, supported by low taxation and light regulation. In comparison, GIFT IFSC shares key OFC attributes, including a non-resident focus, foreign currency-denominated transactions, and provision of cross-border financial services. It also offers tax incentives and regulatory flexibility under the International Financial Services Centres Authority, operates as a ring-fenced jurisdiction, and supports activities such as offshore banking, fund management, derivatives trading, and aircraft leasing.

However, important differences remain. Unlike classical OFCs, GIFT is not a tax haven and operates within a high-transparency regulatory framework. Its scale is still developing compared to established OFCs such as Cayman or Luxembourg. Moreover, its policy objective is not regulatory arbitrage but the onshoring of offshore financial activity and broader financial sector development. Embedded within India’s domestic financial

system, GIFT IFSC represents a regulated model of offshore intermediation, rather than a detached offshore economy.

[Table 6]

2.5 Framework for a Proxy Indicator for OFC Status

Early attempts to define Offshore Financial Centres (OFCs) relied on observable external financial linkages. In the early 1990s, the International Monetary Fund (IMF) characterized OFCs as jurisdictions where the banking system acts as a financial entrepôt, maintaining external positions that significantly exceed those warranted by domestic economic activity. A commonly used operational metric was the ratio of deposit banks' external assets to exports of goods and services, with OFCs identified as those exhibiting ratios at least three times the global average (Landell-Mills, 1986; IMF, 1995). Subsequently, the IMF (2002) proposed a stock-based definition, classifying jurisdictions as OFCs if their international investment position (IIP) assets exceeded 50 percent of GDP and were greater than US\$1 billion in absolute terms.

However, these definitions do not fully capture the fundamental characteristic of OFCs, the provision of financial services to non-residents at a scale disproportionate to the size of the domestic economy. Conceptually, an OFC can be defined as a jurisdiction that specializes in exporting financial services far beyond its domestic financing needs. Consistent with this perspective, a theoretically appropriate indicator of OFC status would relate net exports of financial services to national income, typically measured as a ratio to GDP.

In practice, however, constructing such a flow-based indicator is constrained by data limitations, particularly incomplete reporting of financial services in balance of payments statistics. To address this, a stock-based proxy derived from IIP data can be employed. Specifically, the concept of “filtered IIP assets” is introduced, excluding components unrelated to private-sector financial intermediation, such as general government assets, reserve assets, and monetary authority holdings.

Accordingly, the ratio of filtered IIP assets to GDP serves as a practical and robust proxy indicator of OFC status, capturing the scale of internationally oriented financial activity relative to the domestic economy.

3. India's OFC Status: Stylized Facts based on IIP Indicators

3.1 International Banking

The trend of India's international banking assets over the period Q4FY06 to Q2FY26 has been shown in Figure 1A. It can be seen that during the initial period (FY06 to FY13), the growth of international banking assets was relatively modest and mostly hovered below 1 lac crores. From FY14 to FY19, the international banking assets gradually expanded and revolved around 2 lac crores of assets. However, from FY20, the international banking assets rose sharply and crossed 10 lac crores in FY25. This indicates greater participation of Indian banks in the international financial markets and a structural shift towards the internationalization of banking assets.

[Figure 1A]

Figure 1B depicts the composition of India's international banking assets over the period Q4FY06 to Q2FY26. The figure shows the persistent dominance of currency and deposits in the portfolio of international banking assets. During the initial period (FY06-FY07), currency and deposits account for around 60 to 70% of total assets. Although some moderation was observed around FY08 to FY10 due to an increase in loan activity, in recent times it has stabilized in a range of 55 to 65 percent. This shows a strong preference of Indian banks for liquidity and low-risk instruments. The second important component in the portfolio of banking assets is loans. However, it shows a considerable amount of volatility during the entire period and mostly revolves between 10 and 20 percent of the total assets. The accounts receivable play a significant role, particularly during the early stage when the overall size of the international banking assets was relatively small. However, as the size of banking assets continued to rise, the importance of other accounts gradually decreased. In contrast, equity and debt securities remain negligible during the entire period. Money market instruments show some prominence after FY16 but remain relatively small. The composition of India's international banking assets reflects a greater orientation towards liquid assets with limited diversification in higher-yielding instruments like equity and debt.

[Figure 1B]

India's international banking liabilities trend over the period Q4FY06 to Q2FY26 has been displayed in Figure 2A. The figure shows a pronounced upward trend of banking liabilities over this period. The initial phase (FY06-FY12) shows a gradual growth in the liabilities, followed by a sharp expansion during FY13 to FY16, and has crossed 10 lac crores in FY16. Some correction was observed around FY17; however, from FY18 onwards, liabilities showed an upward trajectory, which further accelerated in the post-FY22 period and was over 17 lac crores in FY25-26. Thus, the liabilities trend indicates increased reliance on external funding, with capital inflows not a major concern.

[Figure 2A]

Figure 2B depicts the composition of India's international banking liabilities over the period Q4FY06 to Q2FY26. The graph shows the overwhelming dominance of currency and deposits in the overall international liability structure of Indian banks, which accounts for 80 to 95 percent of the total liabilities. The next important component in the liability structure is the loans; however, its share has been relatively modest during the entire period, ranging between 3 and 14 percent. The debt securities in the form of bonds and notes remain negligible during most of the period, and interestingly, there is no presence of equity and money market instruments throughout the period. In similar lines, the other accounts had declined over time and become inactive in the recent years. Overall, the liability structure of India's international banking is mostly deposit-driven external funding, which offers a cost advantage, but on the flip side, it shows the passive approach of Indian banks to managing their liabilities with limited dependence on market-based instruments.

[Figure 2B]

3.2 External Portfolio Investment

India's External Portfolio Investment Assets in terms of equity & debt investments over the period Q4FY06-Q2FY26 has been shown in Figure 3A. The graph shows a significant structural transformation in the investments, both in terms of scale and composition. Till 2020, the equity assets held by Indian entities were subdued and were mostly below 20 thousand crores. However, post FY20, there has been a sharp surge in the equity assets crossing 1.2 lac crores in FY23. This acceleration of equity indicates an increasing trend of foreign equity investments by Indian entities in recent times. In contrast, debt assets show a more volatile and cyclical pattern, which indicates relatively cautious engagement with foreign debt instruments.

[Figure 3A]

The composition of equity assets shown in Figure 3B shows that the banks initially held a dominant share of about 60 to 65 percent during FY06-FY09, but this has been sharply reversed during the post-global financial crisis period. From FY10 onwards, other sectors, which include non-banking financial institutions, mutual funds, corporates, and households, emerged as the principal investors and their share has been consistently exceeding 70 to 90 percent, and has reached over 98% in recent years. The near disappearance of bank participation post-FY22 indicates a withdrawal approach of banks from cross-border equity exposures.

[Figure 3B]

The composition of debt assets shown in Figure 3C shows greater volatility and structural shifts. The initial years show the dominance of the banking system in bond and notes assets, with more than 90 percent of these debt assets held by the Indian banks. However, this behaviour of Indian banks drastically changes due to the investment shift towards money market instruments. From FY16, the composition has become increasingly non-bank-driven in bond and note assets. This suggests an active management of India's External Portfolio Investment Debt Assets by both banks and non-bank entities.

[Figure 3C]

India's external portfolio investment liabilities show a sustained growth over the period Q4FY06 to Q2FY26, with equity liabilities consistently dominating over debt, as shown in Figure 4A. Equity liabilities showed a notable acceleration post-FY20, indicating greater foreign participation in Indian equity markets. In contrast, debt liabilities show a more gradual trajectory with a sharp correction during FY18, which was followed by a moderate growth thereafter. The graph shows India's greater reliance on equity-based external financing compared to debt instruments.

[Figure 4A]

The composition of equity liabilities under the external portfolio investments shows that it is entirely driven by the other sectors during this period, and banks have no role to play as far as external equity liabilities are concerned. This shows the foreign portfolio equity investment in India is mostly directed toward corporates and market-

based entities, rather than the banking system. In similar lines, debt liabilities shown in Figure 4B also show the dominance of the other sector, which accounts for over 90 percent of the total debt liabilities during most of the periods. The graph shows that money market instruments have a negligible role in the overall liability structure. Thus, the evidence suggests that India's external portfolio liabilities are predominantly intermediated through non-bank entities with limited exposure of the banking sector in the portfolio liabilities.

[Figure 4B]

3.3 Offshore Mutual Funds and Asset Management Companies

India's mutual fund sector has experienced a significant expansion in cross-border activity over the period 2009–2024, as reflected in the sharp rise in both foreign assets and liabilities (Figure 5A). Figure 5A shows the trend in foreign assets and liabilities of mutual funds in India during the period 2009-2024. The graph shows a sharp rise in both foreign assets and liabilities. Although foreign liabilities have grown steadily over time, foreign assets were relatively subdued till 2020; however, post-2020, there has been a pronounced surge in the level of foreign assets.

[Figure 5A]

Country-wise Foreign Liabilities of Mutual Funds in India during the period 2009-2024, as shown in Figure 5B, indicates that the foreign liabilities of Indian mutual funds are diversified but moderately concentrated. A substantial portion is captured by the "Others" category; however, it has shown a declining trend from over 70% in 2009 to around 34% in 2024. Among major contributors to the liabilities is the United Arab Emirates, which consistently dominates the overall liability structure and has risen to nearly 19–20% in recent years. The other important countries are the United States and the United Kingdom, which contribute around 9 to 12 percent individually. Singapore and Mauritius also play important roles; however, Mauritius shows a declining trend over time. The growing presence of Gulf economies (UAE, Oman, Qatar, Saudi Arabia) suggests strengthening regional financial linkages.

[Figure 5B]

Figure 5C shows the geographical distribution of India's mutual fund cross-border exposures on the asset side. The graph shows a clear shift from the traditional European assets to other advanced markets. Luxembourg initially dominates over 50 to 70 percent, but its share declines sharply over time. In contrast, the US emerged as an important destination for investment, the share of US increased to over 65 percent by 2024. Ireland has also gained prominence in recent times. Overall, the evidence shows structural shifts of mutual fund portfolios towards advanced financial markets.

[Figure 5C]

The trend of foreign assets and liabilities of India's asset management companies (AMCs) has been shown in Figure 6A over the period 2009 to 2024. Foreign assets show a strong upward trend, with a temporary moderation during FY19-FY20, but post-pandemic they have shown a renewed surge. In contrast, foreign liabilities remain

modest till 2017 but thereafter showed a sharp surge in the level of foreign liabilities with increasing volatility. Overall, the evidence indicates a persistent net liability position of Indian AMC's over the sample period.

[Figure 6A]

Figures 6B and 6C show the geographical concentration and structural shifts in the cross-border balance sheets of India's asset management companies (AMCs). Figure 6B shows the foreign liabilities of the AMC; it can be that there is a clear transition from a diversified investor base to concentrated dominance by a few jurisdictions. In the early period, Mauritius emerged as the principal source of liabilities, nearly 48% in 2009. However, its importance declines sharply over time. In contrast, Japan and the United Kingdom become dominant in later years, with Japan's share rising significantly to over 60% by 2024, indicating a major shift in investor geography. Other jurisdictions, such as Canada and France, have gained moderate importance, while Singapore and Luxembourg have played relatively limited roles in recent years.

[Figure 6B]

The asset side of AMC in Figure 6C shows an even more concentrated pattern. Guernsey overwhelmingly dominates AMC foreign assets, with a rising share of around 16 percent in 2009 to 75-80 percent in recent years. Singapore and Mauritius, though initially important, witness declining shares, while allocations to advanced markets such as the United States remain minimal. Overall, the evidence points to increasing geographical concentration raising important questions regarding risk concentration, regulatory arbitrage, and the evolving role of AMCs in India's international financial integration.

[Figure 6C]

3.4 Proxy Indicator of OFC Status: Filtered IIP to GDP ratio

The evolution of India's filtered external balance sheet relative to GDP have been shown in Figures 7A and 7B show. It offers important insights about India's degree of international financial integration and its positioning as an offshore financial center (OFC). The filtered IIP assets-to-GDP ratio shown in Figure 7A remains relatively low throughout the sample period but exhibits a clear upward trajectory over time. In the initial period FY06-FY09, the filtered IIP assets-to-GDP ratio hovered between 5 and 7 percent and displayed considerable volatility, particularly during the post-global financial crisis. The ratio stabilizes within a narrow band of 6-9 percent during FY10-FY19. However, a notable structural shift occurs post-FY20, with the ratio rising steadily and reaching almost 20% by Q2FY26. This acceleration reflects increased outward portfolio investment and deeper engagement with global financial markets. However, even at its peak, the asset ratio remains modest, suggesting that India's external assets are still relatively shallow compared to offshore-oriented financial systems.

[Figure 7A]

In contrast, the filtered IIP liabilities-to-GDP ratio shown in Figure 7B is substantially higher across the entire period, indicating India's role as a net capital-importing economy. The ratio rises from around 65 to 90 percent in the initial period of FY06-FY12 and peaks during FY13–FY16, where it exceeded 100 percent of the GDP. Although the ratio declines gradually thereafter, it remains elevated and stabilizes in the range of 70 to 80 percent in recent years. Unlike classical OFCs, which are characterized by large gross external positions on both sides of the balance sheet, India exhibits a pattern where liabilities significantly exceed assets, indicating dependence on foreign capital rather than acting as an intermediary of global financial flows. Overall, the evidence suggests that while India is experiencing gradual financial deepening and increasing outward integration, its external position remains inward-oriented and characteristic of an emerging market economy. This has important policy implications, particularly in the context of developing IFSCs such as GIFT City, which aim to enhance India's role in global financial intermediation.

[Figure 7B]

4. Conclusion

This paper evaluates India's position in offshore financial activity by examining cross-border financial activity using IIP-based indicators and the emergence of GIFT IFSC. The findings highlight a clear expansion in India's international financial engagement, particularly after FY20, reflecting deeper integration with global financial markets.

The analysis of international banking indicates growing cross-border activity, although asset composition remains concentrated in currency and deposits, suggesting a preference for liquidity over diversified offshore intermediation. On the liabilities side, the dominance of deposit-based funding reflects continued reliance on external capital inflows. External portfolio investment trends reveal a structural shift toward non-bank participation, with banks reducing their role in cross-border equity exposures. Portfolio liabilities are similarly dominated by non-bank entities, indicating increasing market-based financial integration.

Evidence from mutual funds and asset management companies further supports the expansion of offshore financial activity, particularly in the post-pandemic period. However, the persistence of geographical concentration and the continued net liability position of AMC's suggest that India's role remains largely as a recipient rather than an intermediary of global capital flows.

The filtered IIP indicators provide the most comprehensive insight into India's offshore status. While the assets-to-GDP ratio has risen over time, it remains modest relative to typical OFCs, whereas the liabilities-to-GDP ratio remains significantly higher. This asymmetry indicates that India continues to function as a capital-importing economy, rather than a conduit for global financial intermediation.

Overall, India does not yet exhibit the defining characteristics of a classical OFC. Instead, GIFT IFSC represents a hybrid model aimed at onshoring offshore financial activity within a regulated domestic framework, with future progress dependent on the deepening of outward financial intermediation.

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Table 1
Classification of Financial Market Transactions by Residency of Participants

Domestic Financial Market	
Lender/Investors	Borrowers/Issuers
<i>Domestic (Residents)</i>	<i>Domestic (Residents)</i>
International Financial Market	
Lender/Investors	Borrowers/Issuers
<i>Domestic (Residents)</i>	<i>Domestic (Residents)</i>
<i>Foreign (Non-Residents)</i>	<i>Domestic (Residents)</i>
<i>Domestic (Residents)</i>	<i>Foreign (Non-Residents)</i>
<i>Foreign (Non-Residents)</i>	<i>Foreign (Non-Residents)</i>
Entrepôt or Offshore Transactions	Entrepôt or Offshore Transactions

Table 2
Key Characteristics of Offshore Financial Centres Based on Conceptual Definitions

Characteristics	Literature
Primarily orientation of business toward non-residents	Dufey and Giddy (1978); McCarthy (1979); Park (1994); IMF (June 2000)
Favourable regulatory environment	Dufey and Giddy (1978); McCarthy (1979); Johnston (1982); Errico and Musalem (1999)
Low-or zero-taxation scheme	Dufey and Giddy (1978); McCarthy (1979); Park (1994); Johnston (1982); Errico and Musalem (1999)
Disproportion between the size of the financial sector and the domestic financing needs	Johnston (1982)
Dealings in currencies that are not the currency of the country where the centre is located	Park (1994)
Offshore banking activity is essentially entrepôt business	Johnston (1982); IMF (1995)
Centres separated from major regulating units (states)	Hampton (1996)

Table 3
Traditional IFCs vs Offshore Financial Centres: A Comparative Framework

Criteria / Parameter	Traditional International Financial Centres (IFCs)	Offshore Financial Centres (OFCs)
Primary Function	Intermediation of domestic capital globally (lending, investment, underwriting)	Intermediation of non-resident funds (offshore banking, cross-border flows)
Client Base	Both domestic and foreign residents	Primarily non-residents
Capital Position	Typically, net capital exporters / creditors	Not necessarily exporters; often intermediaries/conduits
Market Structure	Deep, well-developed domestic financial markets (money, debt, equity)	Limited or absent domestic markets; focus on external transactions
Regulatory Environment	Comprehensive regulation (reserve requirements, taxes, controls)	Light/low regulation, tax neutrality, minimal restrictions
Integration with Domestic Economy	Strongly integrated with domestic economy	Often segregated (ring-fenced) from domestic economy
Scope of Activities	Broad: banking, securities markets, FDI, asset management	Focus on offshore banking, fund routing, tax-efficient structures
Attraction for Participants	Market depth, liquidity, institutional credibility	Regulatory arbitrage, lower costs, flexibility
Examples	New York, Tokyo (historically), London (initially)	Cayman Islands, Bahamas, Singapore (partly), London (Eurodollar phase)
Role in Global Finance	Originators and allocators of capital	Intermediaries facilitating global capital flows

Table 4
Classification of OFCs by Specific Functions

Types	Functions
Wholesale Banking Centres	Interbank deposits/lending; global liquidity; benchmark rate formation; derivatives support
Private Banking Centres	Wealth management; confidentiality; trusts; asset protection
Securities Issuing Centres	SPVs; tax-efficient issuance; no withholding tax; global securities issuance
Collective Investment Centres	Fund domiciliation; mutual/hedge funds; investor protection with flexibility
International Insurance Centres	Insurance & reinsurance; risk pooling; specialised regulation
Incorporation Centres	Low-cost company formation; flexible corporate laws; SPVs/shell entities

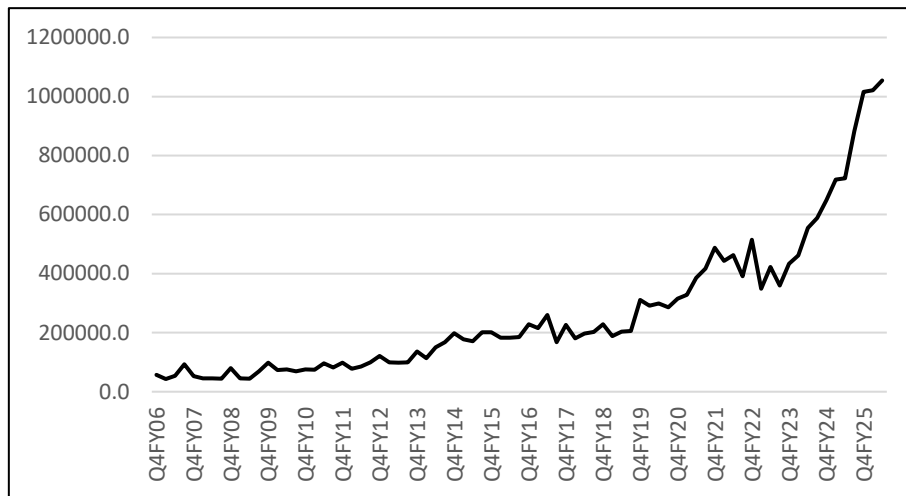
Table 5
Classification of OFCs based on Services Offered

Types	Services
<i>Entrepôt Financial Services</i>	Full-service offshore finance via domestic system (banking, FX trading, capital markets, derivatives); strong legal & institutional framework
<i>Booking Centers</i>	Transaction booking with minimal domestic linkage; limited real activity; conduit for global financial flows
<i>International Banking Facilities (IBFs)</i>	Offshore banking in segregated regulatory enclaves; foreign currency transactions; segregated from domestic system
<i>Aspiring OFCs</i>	Limited services with tax/regulatory incentives; low volume and developing ecosystem

Table 6
GIFT IFSC as a Hybrid Financial Centre: Comparison with Traditional IFCs and OFCs

Characteristic	Traditional IFCs	OFCs	GIFT IFSC
Primary focus on non-resident transactions	No	Yes	Yes
Domestic + international client base	Yes	No	Yes
Net capital exporter role	Yes	No	No
Deep domestic financial markets	Yes	No	No
Cross-border financial intermediation	Yes	Yes	Yes
Foreign currency-denominated transactions	Yes	Yes	Yes
Regulatory flexibility / liberalised regime	No	Yes	Yes
Tax incentives / preferential treatment	No	Yes	Yes
Ring-fencing from domestic economy	No	Yes	Yes
Integration with domestic financial system	Yes	No	Yes
Scale of global financial activity	Yes	Yes	Developing
Breadth of financial services (banking, funds, derivatives, leasing)	Yes	Yes	Yes
Policy objective	Global intermediation	Regulatory/tax arbitrage	Onshoring offshore activity & financial development

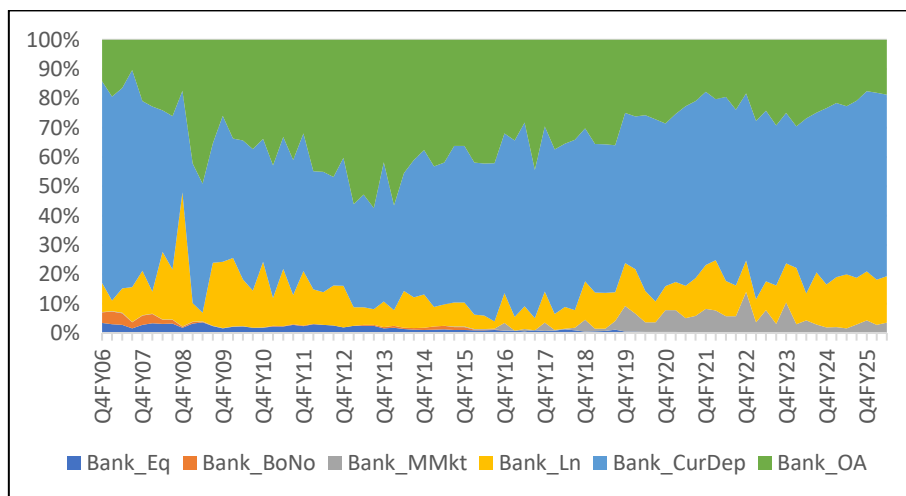
Figure 1A
India's International Banking Assets (Q4FY06-Q2FY26) (Figures in ₹ crore)



Source: Reserve Bank of India, Database on Indian Economy (DBIE)

Note: International banking assets as per BPM6, IIP assets comprise equity and investment fund shares, debt securities (bonds and notes), money market instruments, loans, currency and deposits, and other financial assets.

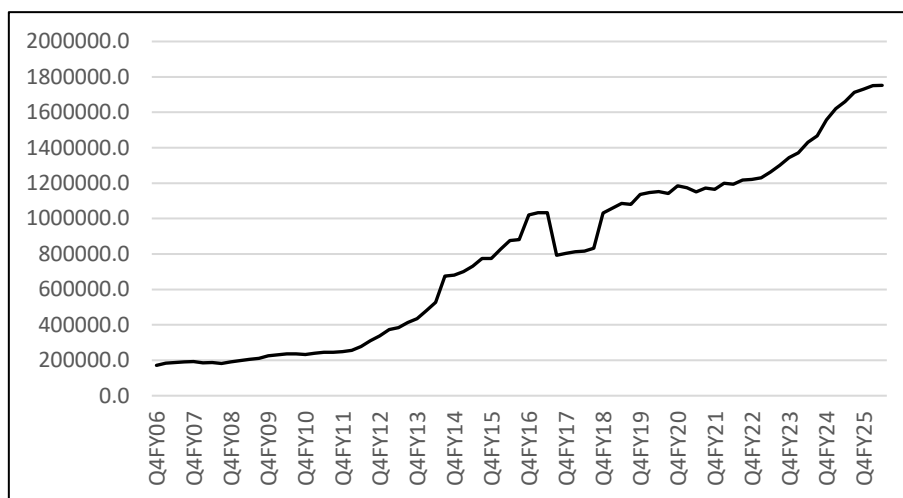
Figure 1B
Composition of India's International Banking Assets (Q4FY06-Q2FY26)



Source: Reserve Bank of India, Database on Indian Economy (DBIE)

Note: Components are from BPM6, IIP assets: equity and investment fund shares (*Bank_Eq*), debt securities (*Bank_BoNo*), money market instruments (*Bank_MM*), loans (*Bank_Ln*), currency and deposits (*Bank_CD*), and other accounts receivable (*Bank_OA*).

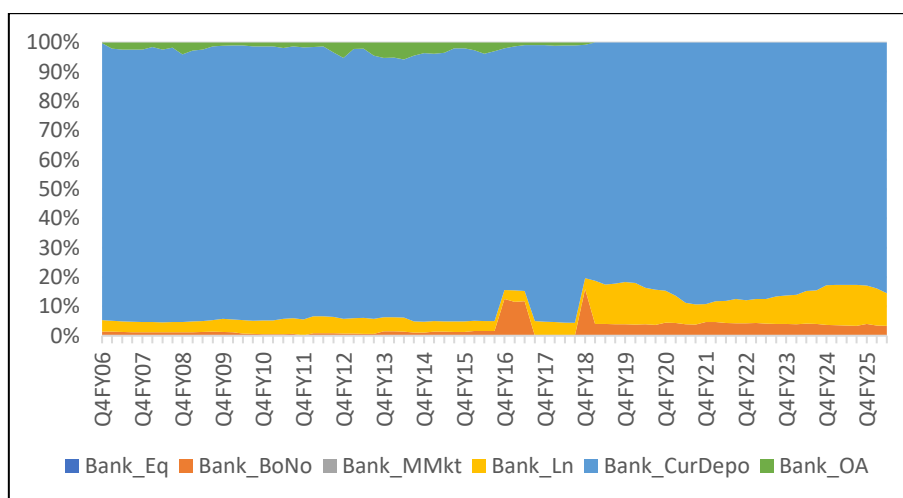
Figure 2A
India's International Banking Liabilities (Q4FY06-Q2FY26) (Figures in ₹ crore)



Source: Reserve Bank of India, Database on Indian Economy (DBIE)

Note: International banking liabilities as per BPM6, IIP liabilities comprise equity and investment fund shares, debt securities (bonds and notes), money market instruments, loans, currency and deposits, and other financial liabilities.

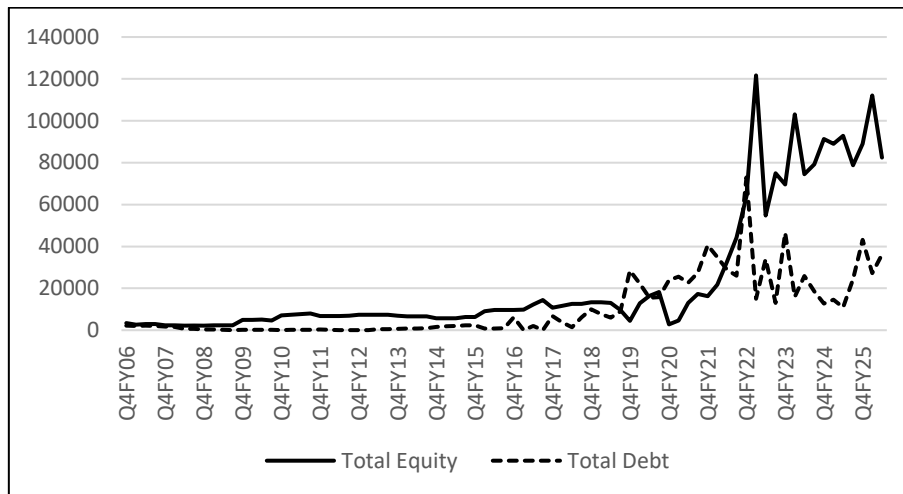
Figure 2B
Composition of India's International Banking Liabilities (Q4FY06-Q2FY26)



Source: Reserve Bank of India, Database on Indian Economy (DBIE)

Note: Components are from BPM6, IIP liabilities: equity and investment fund shares (*Bank_Eq*), debt securities (*Bank_BoNo*), money market instruments (*Bank_MM*), loans (*Bank_Ln*), currency and deposits (*Bank_CD*), and other accounts payables (*Bank_OA*) held by banks.

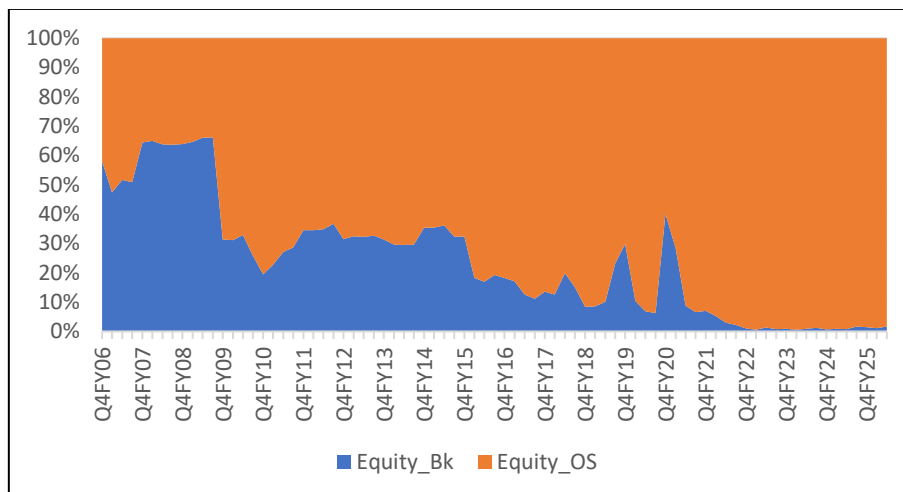
Figure 3A
India's External Portfolio Investment Assets: Equity & Debt (Q4FY06-Q2FY26)
(Figures in ₹ crore)



Source: Reserve Bank of India, Database on Indian Economy (DBIE)

Note: Based on BPM6 IIP assets. *Total Equity* comprises equity held by banks and other sectors. *Total Debt* comprises debt securities (bonds & notes, and money market instruments) held by banks and other sectors.

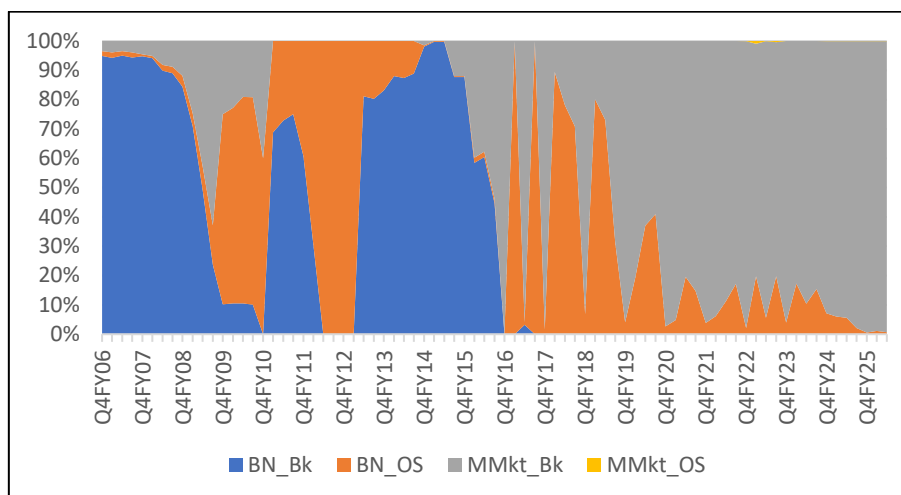
Figure 3B
Composition of India's External Portfolio Investment Equity Assets (Q4FY06-Q2FY26)



Source: Reserve Bank of India, Database on Indian Economy (DBIE)

Note: Based on BPM6 IIP assets. *Equity_Bk* denotes equity and investment fund shares held by banks, and *Equity_OS* denotes those held by other sectors.

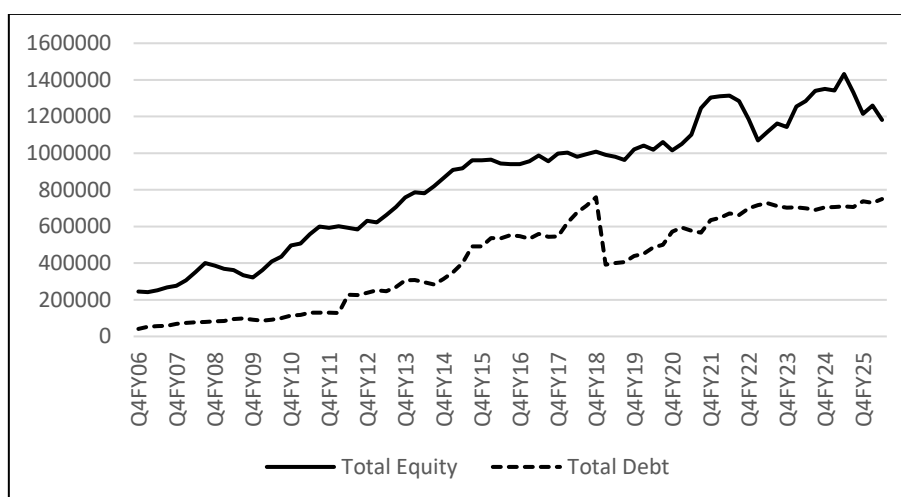
Figure 3C
Composition of India's External Portfolio Investment Debt Assets
(Q4FY06-Q2FY26)



Source: Reserve Bank of India, Database on Indian Economy (DBIE)

Note: Based on BPM6 IIP assets. *BN_Bk* denotes bond and notes held by banks, and *BN_OS* denotes those held by other sectors. *MMkt_Bk* denotes money market instruments held by banks, and *MMkt_OS* denotes those held by other sectors.

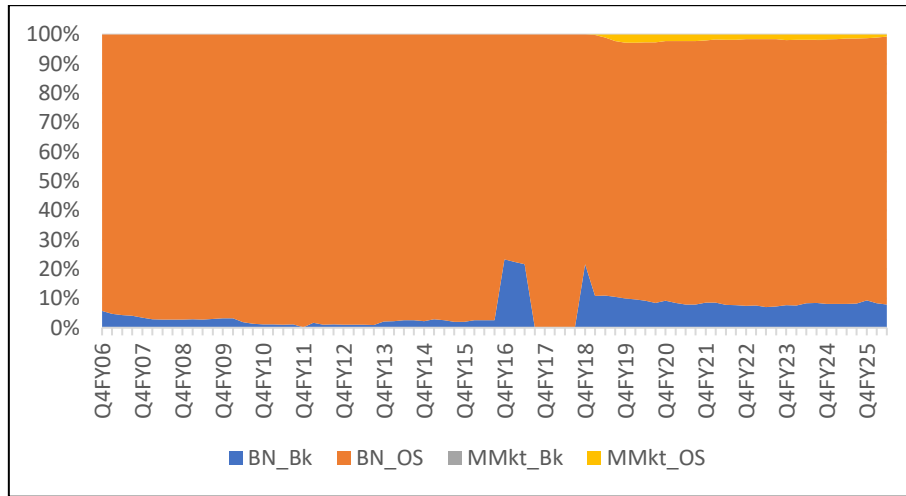
Figure 4A
India's External Portfolio Investment Liabilities: Equity & Debt (Q4FY06-Q2FY26)
(Figures in ₹ crore)



Source: Reserve Bank of India, Database on Indian Economy (DBIE)

Note: Based on BPM6 IIP liabilities. *Total Equity* comprises equity held by banks and other sectors. *Total Debt* comprises debt securities (bonds & notes, and money market instruments) held by banks and other sectors.

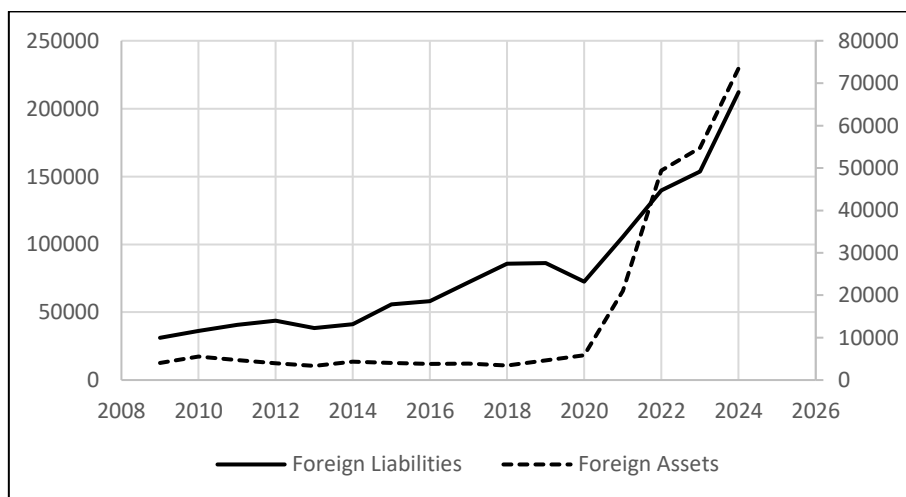
Figure 4B
Composition of India's External Portfolio Investment Debt Liabilities
(Q4FY06-Q2FY26)



Source: Reserve Bank of India, Database on Indian Economy (DBIE)

Note: Based on BPM6 IIP liabilities. *BN_Bk* denotes bond and notes held by banks, and *BN_OS* denotes those held by other sectors. *MMkt_Bk* denotes money market instruments held by banks, and *MMkt_OS* denotes those held by other sectors.

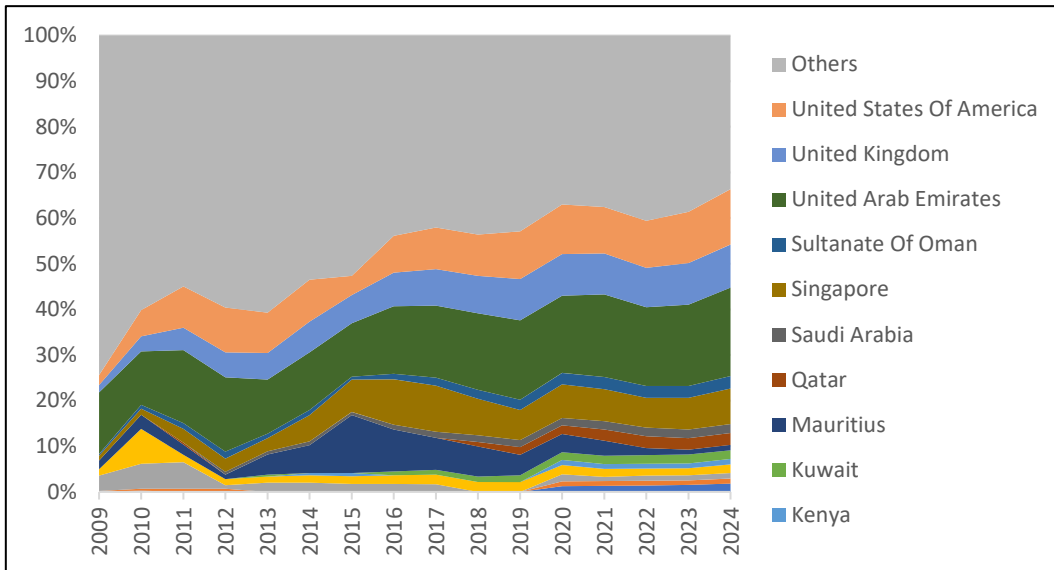
Figure 5A
Foreign Assets and Liabilities of Mutual Funds in India (2009-2024)
(Figures in ₹ crore)



Source: Reserve Bank of India, Database on Indian Economy (DBIE)

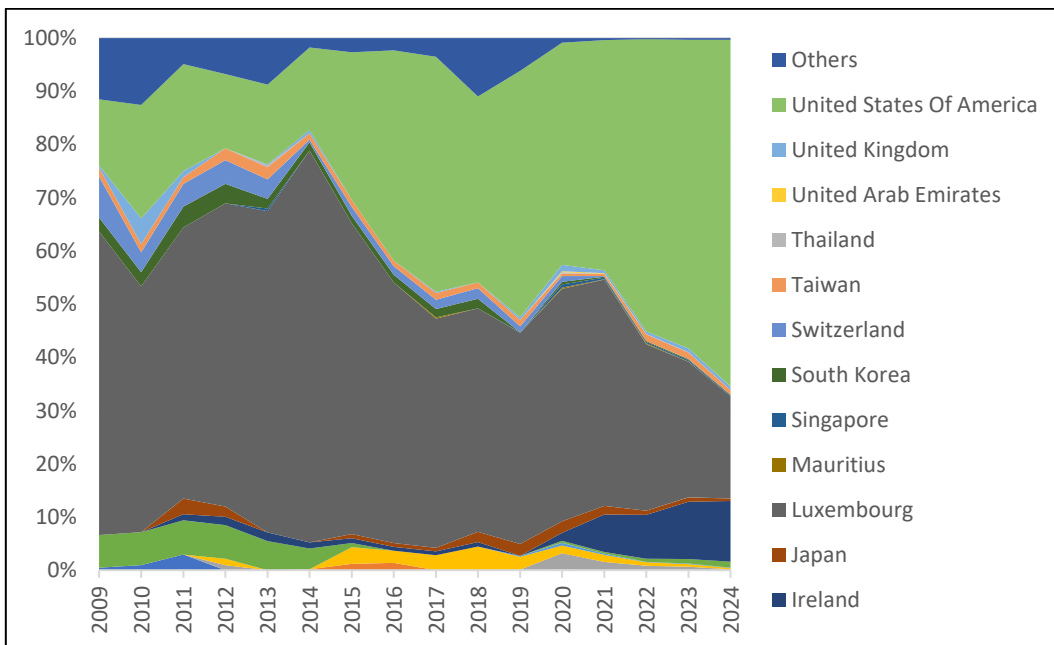
Note: Foreign liabilities (primary axis) and foreign assets (secondary axis)

Figure 5B
Country-wise Foreign Liabilities of Mutual Funds in India (2009-2024)



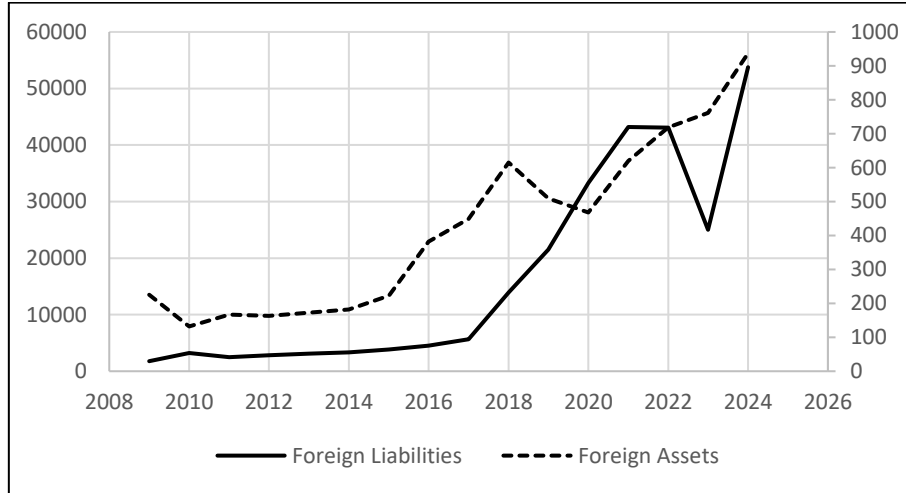
Source: Reserve Bank of India, Database on Indian Economy (DBIE)

Figure 5C
Country-wise Foreign Assets of Mutual Funds in India (2009-2024)



Source: Reserve Bank of India, Database on Indian Economy (DBIE)

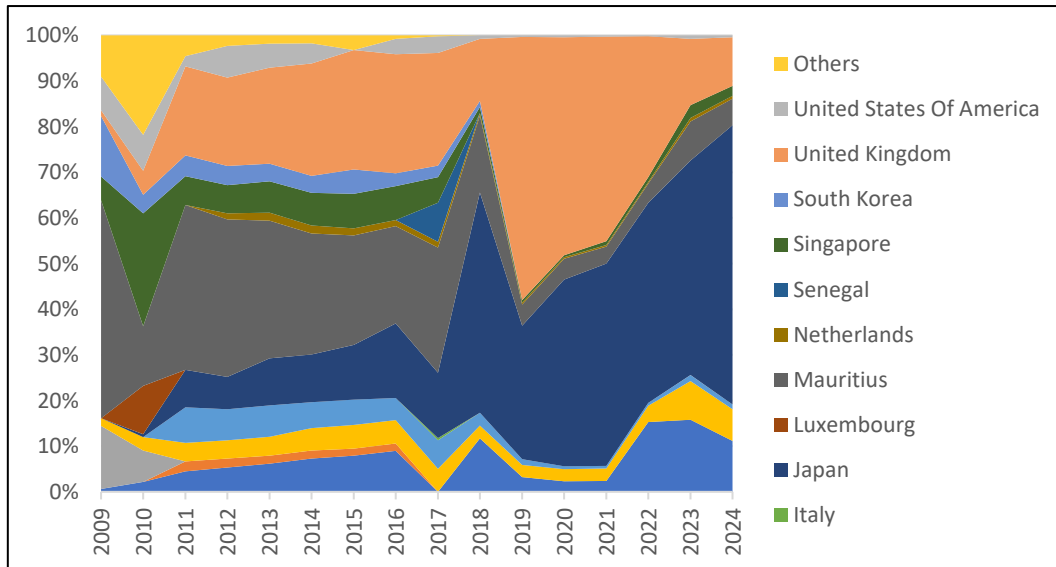
Figure 6A
Foreign Assets and Liabilities of Asset Management Companies in India
(2009-2024)
(Figures in ₹ crore)



Source: Reserve Bank of India, Database on Indian Economy (DBIE)

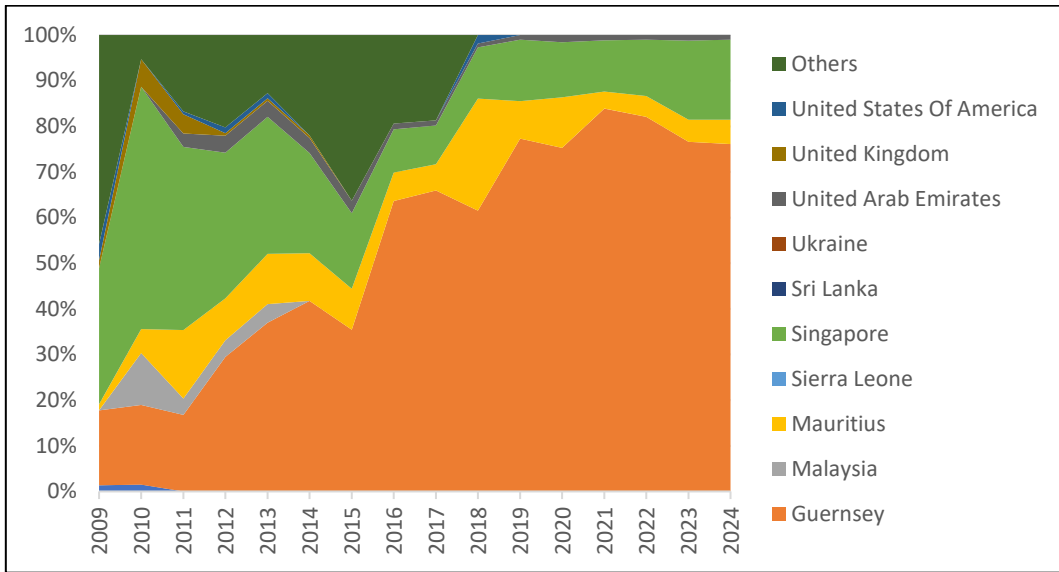
Note: Foreign liabilities (primary axis) and foreign assets (secondary axis)

Figure 6B
Country-wise Foreign Liabilities of Asset Management Companies in India
(2009-2024)



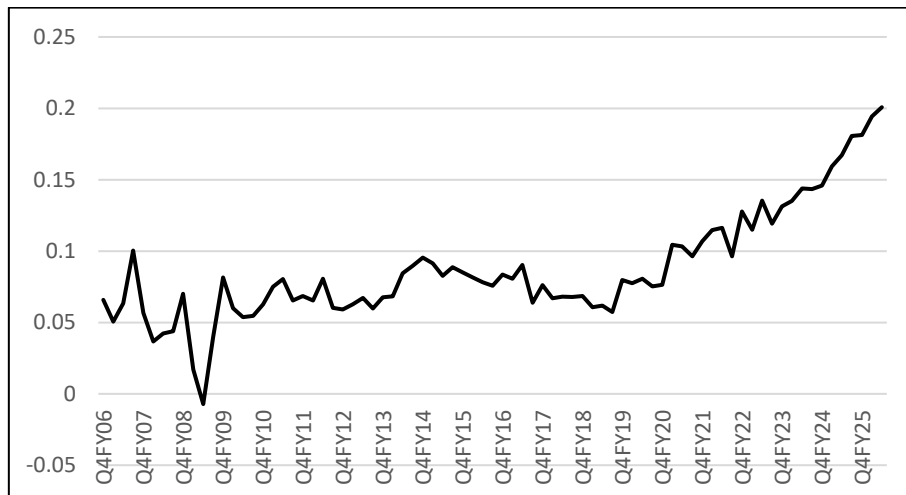
Source: Reserve Bank of India, Database on Indian Economy (DBIE)

Figure 6C
Country-wise Foreign Assets of Asset Management Companies in India
(2009-2024)



Source: Reserve Bank of India, Database on Indian Economy (DBIE)

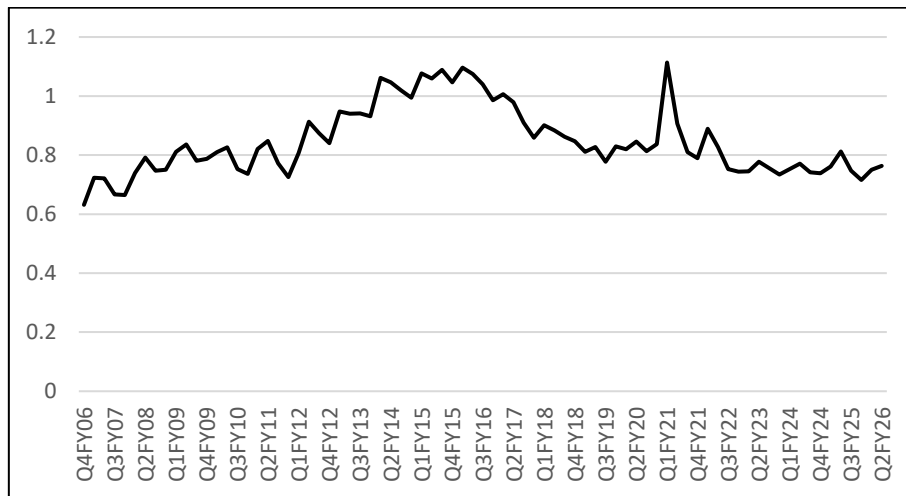
Figure 7A
Filtered IIP Assets to GDP Ratio (Q4FY06-Q2FY26) (Figures in ₹ crore)



Source: Reserve Bank of India, Database on Indian Economy (DBIE)

Note: Based on BPM6 IIP assets. *Filtered IIP assets* comprises total IIP assets - foreign direct investment, reserve assets, and all assets belonging to general government and monetary authorities.

Figure 7B
Filtered IIP Liabilities to GDP Ratio (Q4FY06-Q2FY26)
(Figures in ₹ crore)



Source: Reserve Bank of India, Database on Indian Economy (DBIE)

Note: Based on BPM6 IIP liabilities. *Filtered IIP liabilities* comprises total IIP liabilities - foreign direct investment, and all liabilities belonging to general government and monetary authorities.