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Loan guarantees and the internationalisation of Indian firms

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**Loan Guarantees and the Internationalisation
of Indian Firms**

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Loan Guarantees and the Internationalisation of Indian Firms

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Working Paper

**International Economics and Development Laboratory (IEDL),
University of Athens, Greece**

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ABSTRACT

This paper analyses the role of loan guarantees in supporting the internationalisation of Indian firms through outward foreign direct investment (OFDI) since the mid-2000s. Despite a persistent domestic savings–investment gap and recurrent current account deficits, Indian OFDI has expanded significantly, raising questions about its underlying financing mechanisms. The paper argues that regulatory liberalisation and the growing use of loan guarantees have been central to this expansion. Using balance-of-payments analysis and a stylised framework that distinguishes between private and guaranteed financing channels, the study documents a shift in OFDI financing from equity dominance towards a more diversified structure that includes reinvested earnings, intercompany loans, external commercial borrowings, and guaranteed debt. While guarantee issuance has increased markedly, invocation rates remain low, indicating that guarantees primarily serve as credit-enhancement tools rather than realised fiscal liabilities. The paper concludes that India’s predominantly private-risk approach has enabled corporate internationalisation while limiting direct sovereign exposure, but also highlights the need for improved transparency and risk monitoring as guarantee volumes continue to rise.

Keywords: loan guarantees, outward FDI, India, corporate internationalisation, financial commitments, policy reforms.

JEL Classification: F21, F23, H81, G28, F34.

1. Introduction

After a period of relative stagnation, outward foreign direct investment (OFDI) by Indian corporate firms has risen again¹. OFDI—defined as investments by Indian entities in overseas firms and projects through greenfield ventures, acquisitions, and joint ventures—has become an important indicator of India’s changing growth path, signalling a shift from a predominantly inward-focused economy to one that is increasingly integrated into global value chains.

Between 2004–05 and 2023–24, India’s OFDI expanded sharply (Figure 1), reflecting economic diversification, improvements in technological capabilities, and the pursuit of international competitiveness. This expansion has occurred despite persistent macroeconomic imbalances—most notably a current account deficit, a fiscal deficit, and a gross savings rate that remains below the investment rate. The coexistence of a structural savings–investment gap with sustained outward investment raises a central question: through which financial mechanisms have Indian firms mobilised resources to fund OFDI under such macroeconomic constraints?

This paper argues that the liberalisation and growing use of loan guarantees have played a pivotal role in this process. Whereas traditional analyses of India’s OFDI have emphasised equity flows, retained earnings, and external commercial borrowings (ECBs), the increasing reliance on guarantees—both corporate and sovereign-backed—has created a more flexible framework for firms seeking to access international credit and structure overseas deals. Regulatory changes in 2010 and 2022 significantly broadened the scope of guarantees that can be issued under the Overseas Direct Investment (ODI) framework and by public financial institutions, enabling Indian business groups to leverage their balance sheets and reputational capital more intensively.

At the same time, guarantees are not neutral instruments. They constitute contingent liabilities, linking firm-level internationalisation strategies to the sovereign balance sheet and to the broader external debt position. High issuance volumes, combined with still-low recorded invocation rates, suggest that guarantees have so far acted as powerful

¹ The earlier boom was in the early 2000s upto the global financial crisis of 2008. For a detailed exposition of the trends and also its causes see Nagaraj (2006) and Nayyar(2008)

credit-enhancement tools rather than direct fiscal burdens. Yet the opacity of available data and the evolving scale of OFDI financed through guaranteed debt call for a more systematic assessment of their macroeconomic and fiscal implications.

The contribution of this paper is threefold. First, it documents the evolution of India’s OFDI since 2004–05, with particular attention to changes in its financing composition—from equity dominance to a more diversified mix in which “other capital” and international borrowing play a growing role. Second, it foregrounds the role of loan guarantees within this broader financing structure, tracing how regulatory reforms have altered firms’ opportunity set and examining the empirical patterns of guaranteed issuance and invocation. Third, it develops an analytical framework to understand how guarantees connect OFDI financing to the current account, the financial account, and the sovereign balance sheet, thereby informing a more nuanced appraisal of the state’s support for corporate internationalisation.

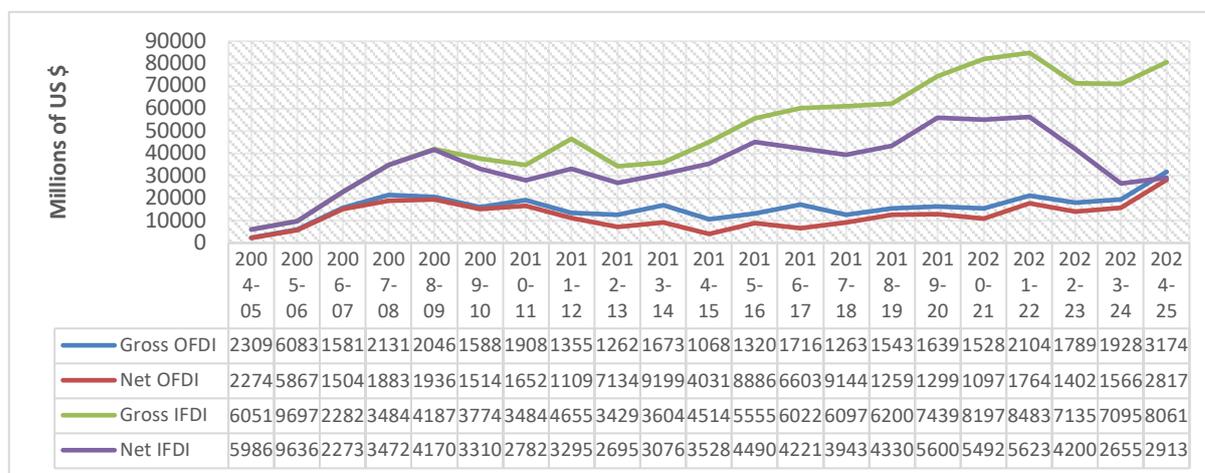


Figure 1: Growing importance of Outward Foreign Direct Investments (OFDI) from India vis-à-vis Inward Foreign Direct Investments (IFDI) to India

Source: Compiled from Database on Indian Economy, Reserve Bank of India, <https://data.rbi.org.in/#/dbie/reports/Statistics/External%20Sector/International%20Finance>

The paper is organised into seven sections. Section 1 introduces the core research question: how India's outward foreign direct investment (OFDI) has continued to expand despite a persistent domestic savings–investment gap. Section 2 sets out the analytical framework that underpins the study. Section 3 provides a historical overview of OFDI, tracing its evolution and the main drivers of key turning points. Section 4 characterises the recent pattern of India's OFDI, highlighting its principal structural features. Section 5 analyses the growing importance of debt finance, with particular attention to loan guarantees as instruments for funding overseas ventures. Section 6 applies the analytical framework to assess the implications of loan guarantees in the Indian context. Section 7 concludes by drawing out the broader public policy lessons of these developments.

By combining institutional analysis, balance-of-payments accounting, and a contingent-claims perspective, this paper contributes to multiple strands of literature on emerging market finance and internationalisation. It shows how seemingly private financial instruments such as loan guarantees can reshape firms' access to global capital while creating latent linkages between corporate strategy and the sovereign balance sheet. In doing so, it advances understanding of how states support corporate globalisation not only through overt industrial policy but also through the design and regulation of financial commitments that operate largely off balance sheet.

2. Analytical framework

To analyse how loan guarantees reshape the financing of OFDI and transmit risks to the broader economy, this section presents a stylised analytical framework. It contrasts two distinct channels through which foreign capital can fund Indian firms' overseas expansion and, indirectly, the current account deficit. Figure 2(a) depicts a purely private financing channel that leaves the sovereign balance sheet isolated from contingent risks. Figure 2(b), in contrast, illustrates the guaranteed-debt channel, showing how guarantees create a direct link between private cross-border flows and potential sovereign liabilities. Together, these figures clarify the macroeconomic and fiscal implications of the growing reliance on guarantees, providing a foundation for assessing the state's implicit support for corporate internationalisation.

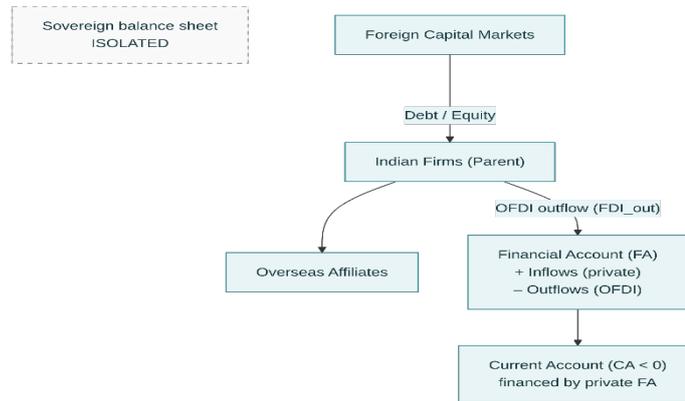


Figure 2(a): Private cross-border finance, OFDI, and the isolated sovereign balance sheet

Figure 2(a) illustrates a purely private channel through which foreign capital finances Indian firms' outward FDI and, indirectly, the current account deficit. Foreign capital markets provide debt and equity to Indian parent firms, which then channel part of these funds to their overseas affiliates as OFDI. In the balance of payments, this sequence appears as private inflows in the financial account, representing foreign investors' claims on Indian firms, and as outflows in the form of OFDI, recorded as equity or other capital to overseas affiliates. A current account deficit ($CA < 0$) is thus effectively financed by these private financial account flows rather than by public or publicly guaranteed borrowing. Because no sovereign or sovereign-backed guarantees are involved at any stage, the sovereign balance sheet is not directly exposed: there is no contingent public liability if firms default, and external risk remains on private balance sheets and in non-guaranteed external debt, rather than migrating into public or publicly guaranteed external debt. In this way, the figure neatly captures the contrast with the guaranteed-debt case, showing that OFDI and current account deficits can be financed privately without automatically creating sovereign risk.

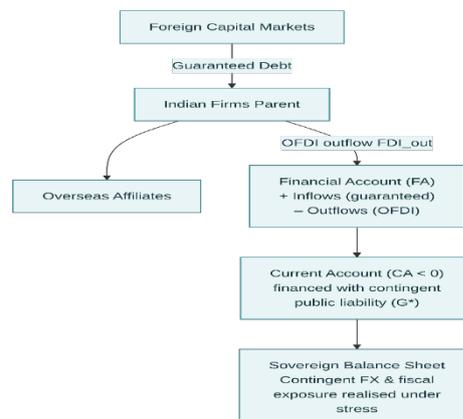


Figure 2(b) Guaranteed foreign debt, OFDI, and transmission of contingent liabilities to the sovereign balance sheet

Figure 2(b) depicts a sequence in which foreign capital markets provide guaranteed debt to Indian parent firms, who then channel part of these funds to their overseas affiliates as OFDI. At the top of the figure, foreign capital markets are the primary source of funding, supplying debt explicitly guaranteed by the Indian state or a public financial institution, thereby lowering perceived risk for international lenders. This guaranteed borrowing is taken on by Indian firms and, via intra-group transfers or direct investment, flows onwards to overseas affiliates, supporting acquisitions, greenfield projects or joint ventures abroad. In the balance of payments, this appears in the financial account as guaranteed inflows, reflecting foreign creditors' claims on Indian residents, offset by OFDI outflows as the capital is deployed to affiliates. Crucially, the figure shows a current account in deficit ($CA < 0$) that is financed not by non-guaranteed private flows but by these guaranteed financial account inflows, so that the external position is effectively underpinned by an instrument carrying a contingent public commitment, denoted G^* . The final box, at the bottom, makes explicit that this structure links the private cross-border financing chain to the sovereign balance sheet: as long as borrowers perform, the guarantee remains off-balance-sheet; but under stress—whether from sectoral shocks, currency mismatches, global tightening or firm-level failure—the guarantee can be called, and the contingent liability

crystallises into actual foreign-exchange and fiscal exposure. In that event, the state must honour the guarantee, adding to public debt and external payment obligations. The diagram thus contrasts sharply with the “isolated sovereign” case, showing how guaranteed foreign debt–financed OFDI turns what initially appears as private external borrowing into a potential source of sovereign risk, with CA deficits effectively financed by instruments that embed a latent fiscal burden.

From the perspective of financial economics, loan guarantees can be conceptualised as contingent claims, akin to put options issued by the guarantor to creditors (Honohan, 2010). The guarantor commits to absorb losses if the borrower defaults, but only when adverse states of the world materialise. As with any option, the expected fiscal or balance-sheet cost of a guarantee depends not on its face value but on the probability distribution of underlying risks, including macroeconomic shocks, currency movements, and firm-level distress. This framing clarifies why low observed invocation rates should not be interpreted mechanically as evidence of low risk. Rather, they indicate that guarantees have largely remained out of the money during the period under study, reflecting a combination of favourable global financial conditions, prudent underwriting, and regulatory safeguards. A contingent-claims perspective thus complements the institutional analysis by highlighting the inherently state-dependent nature of guarantee-related risks.

3. Historical Evolution and Key Trends

India's outward foreign direct investment (OFDI) grew significantly in the mid-2000s, following liberalisation reforms that eased regulatory constraints on overseas investments. Gross OFDI rose from US\$2,309 million in 2004–05 to a peak of US\$21,313 million in 2007–08, before stabilising at lower levels, yet still recording a compound annual growth rate of 11.82 per cent over the period 2004–05 to 2023–24. Net OFDI followed a similar trend, increasing from US\$2,274 million in 2004–05 to US\$15,662 million by 2023–24, with a CAGR of 10.69 per cent. Large conglomerates led the early surge in information technology, pharmaceuticals, and manufacturing, pursuing overseas acquisitions and greenfield projects to expand market presence and secure strategic assets. Notable examples include several high-profile overseas acquisitions and greenfield expansions. In information technology, Tata Consultancy

Services and Infosys established delivery centres in North America and Europe, while Wipro enhanced its infrastructure management capabilities through the acquisition of Infocrossing in the United States in 2007 (Athreya and Kapur, 2009). In pharmaceuticals, Dr. Reddy's Laboratories acquired Betapharm, then Germany's fourth-largest generics firm, in 2006 (Pradhan, 2007); Sun Pharma expanded internationally by acquiring Taro Pharmaceutical (Israel/USA) between 2007 and 2010 (Athukorala, 2009); and Ranbaxy undertook a series of acquisitions in Europe and the United States before its own takeover by Daiichi Sankyo (Elango and Pattnaik, 2011). These acquisitions should not be viewed as isolated or idiosyncratic transactions. Rather, they exemplify a broader pattern of technology-seeking and strategic asset-seeking outward FDI by emerging market multinationals, consistent with the “springboard” internationalisation framework articulated by Luo and Tung (2007). Indian pharmaceutical and IT firms have used overseas acquisitions to accelerate capability upgrading, gain access to regulated markets, and internalise advanced technological and organisational know-how that would have been costly or slow to develop domestically. The scale and speed of such acquisitions, however, are closely tied to firms' ability to mobilise external finance. In this sense, financing arrangements—including access to guaranteed debt—form an integral part of the internationalisation strategy, enabling firms to pursue transformative rather than incremental overseas expansion.

In the manufacturing sector, Tata Steel's acquisition of Corus Group in 2007 and Tata Motors' purchase of Jaguar Land Rover in 2008 remain landmark transactions (Buckley et al., 2014), while Mahindra & Mahindra's acquisition of SsangYong Motor in South Korea in 2010 illustrates similar outward strategies in the automotive sector (Pradhan and Singh, 2009). Collectively, these cases demonstrate how Indian firms utilized OFDI to acquire advanced technologies, brands, distribution networks, and market access.

However, this expansion was not linear. The global financial crisis of 2008, domestic macroeconomic constraints, and shifting regulatory frameworks tempered the momentum of OFDI in subsequent years. More recently, the resilience of OFDI despite persistent current account and fiscal deficits suggests that firm-level strategies, including access to international capital markets, intra-firm financing, and reinvested earnings abroad, have become increasingly important in sustaining outward investments. This

pattern highlights both the structural integration of Indian firms into global value chains and the need to reassess the relationship between macroeconomic constraints and micro-level financing strategies in shaping India's internationalisation trajectory.

To evaluate the relative importance of OFDI, the OFDI-to-IFDI ratio serves as a useful metric (see Table 1). Over the entire period examined (2004–05 to 2024–25), the gross OFDI-to-IFDI ratio averaged 0.37, with the net ratio also averaging 0.37. The early years (2004–05 to 2008–09) recorded higher ratios (net average of 0.53), reflecting vigorous outward expansion. In contrast, the most recent five years (2020–21 to 2024–25) display a gross average of 0.27 and a net average of 0.48—indicating a notable shift from the pre-2024–25 trend, driven by sharp increases to 0.59 in 2023–24 and 0.97 in 2024–25. This trend highlights a renewed momentum in outward investment, reducing the gap with inward flows in recent years. Cumulative gross OFDI from 2020–21 to 2024–25 reached US\$105.3 billion, compared to US\$389.7 billion in gross IFDI (ratio 0.27), demonstrating sustained outward resilience despite ongoing macroeconomic constraints. This aligns with empirical evidence documenting the overseas expansion strategies of manufacturing firms and large conglomerates aiming to strengthen their positions in international markets.

Table 1: OFDI vs IFDI in India (values are in millions of USD)

	Gross OFDI	Net OFDI	Gross IFDI	Net IFDI	Gross OFDI/IFDI Ratio	Net OFDI/IFDI Ratio
2004–05	2,309	2,274	6,051	5,986	0.38	0.38
2005–06	6,083	5,867	9,697	9,636	0.63	0.61
2006–07	15,810	15,046	22,826	22,739	0.69	0.66
2007–08	21,313	18,836	34,843	34,727	0.61	0.54
2008–09	20,467	19,364	41,873	41,707	0.49	0.46
2009–10	15,881	15,143	37,745	33,108	0.42	0.46
2010–11	19,086	16,524	34,847	27,829	0.55	0.59
2011–12	13,554	11,097	46,555	32,958	0.29	0.34
2012–13	12,622	7,134	34,298	26,953	0.37	0.26
2013–14	16,734	9,199	36,046	30,762	0.46	0.3

2014–15	10,680	4,031	45,148	35,284	0.24	0.11
2015–16	13,206	8,886	55,559	44,907	0.24	0.2
2016–17	17,167	6,603	60,220	42,215	0.29	0.16
2017–18	12,631	9,144	60,974	39,431	0.21	0.23
2018–19	15,435	12,590	62,001	43,302	0.25	0.29
2019–20	16,396	12,993	74,390	56,006	0.22	0.23
2020–21	15,285	10,972	81,973	54,927	0.19	0.2
2021–22	21,044	17,644	84,835	56,231	0.25	0.31
2022–23	17,897	14,020	71,355	42,006	0.25	0.33
2023–24	19,286	15,662	70,954	26,550	0.27	0.59
2024–25	31,746	28,171	80,615	29,130	0.39	0.97
Period Summaries	0.37	0.37				
Overall ratio OFDI to IFDI (2004–05 to 2024–25)	0.56	0.53				
Early surge (2004–05 to 2008–09)	0.27	0.48				
Most recent five years (2020–21 to 2024–25)						

Source: Compiled from Database on Indian Economy, Reserve Bank of India,

<https://data.rbi.org.in/#/dbie/reports/Statistics/External%20Sector/International%20Finance>

This table highlights a progressive increase in absolute OFDI levels, even as ratios fluctuated due to surging IFDI in high-growth years.

The resurgence of India's outward foreign direct investment (OFDI) over the past five years can be attributed to a confluence of policy, financial, and strategic factors. At the broadest level, Indian firms have increasingly sought global diversification as a hedge against domestic market volatility, regulatory uncertainty, and comparatively slower growth prospects at home. The disruptions caused by the COVID-19 pandemic further underscored the importance of embedding into diversified supply chains and accessing overseas consumer markets. For instance, several information technology firms, including Infosys and Wipro, expanded their delivery centres and digital consulting capabilities in North America and

Europe to meet the rising demand for digital transformation and remote service delivery in the post-pandemic economy (Kaushal, 2022; Beena, 2022).

Regulatory liberalisation has also facilitated renewed outward investment. The Reserve Bank of India's 2022 revision of the Overseas Direct Investment (ODI) framework simplified reporting requirements expanded the scope for financial commitments and clarified rules for round-tripping—changes that align with observations in studies of institutional and regulatory determinants of Indian OFDI² (Kaushal, 2022). Coupled with India's expanding network of trade and investment agreements, these changes provided firms with greater institutional confidence in undertaking overseas projects. This regulatory support coincided with abundant global liquidity and historically low interest rates, which enabled Indian corporations to access international capital markets at relatively favourable terms. Reliance Industries, for example, mobilised significant overseas financing to support its investments in clean energy and technology ventures in Europe and the Middle East³.

Sectoral dynamics have been fundamental in shaping the resurgence. Pharmaceutical and healthcare companies intensified their global presence, often through acquisitions that provided access to advanced technologies, research pipelines, and regulatory approvals in developed markets. Sun Pharmaceutical's acquisitions in the US and Europe exemplify this trend, enabling it to expand both market share and product offerings (Das, 2024; Thaker, 2025). Similarly, manufacturing and renewable energy firms have used OFDI to strengthen their international competitiveness. Firms such as ReNew Power and Adani Green Energy have announced overseas ventures to secure technologies and expand their renewable portfolios in global markets.

The availability of distressed yet strategically valuable assets in advanced economies also created favourable conditions for Indian firms. The pandemic-induced downturn lowered valuations, offering acquisition opportunities at relatively attractive prices. This has been particularly

² This is known as the *Foreign Exchange Management (Overseas Investment) Regulations, 2022*. See Reserve Bank of India (2022)

³ See <https://www.milbank.com/en/news/milbank-advises-lenders-on-green-loan-to-finance-the-usdollar736m-acquisition-of-rec-solar-holdings.html>

evident in sectors such as the automotive industry, where Mahindra & Mahindra has pursued technology partnerships in Europe to strengthen its electric-vehicle capabilities (Reuters, 2022). Large conglomerates, most notably the Tata Group, continued to spearhead internationalisation. For example, Tata Consultancy Services expanded its global delivery centres, while Tata Motors invested in Jaguar Land Rover's electric vehicle research and production, consolidating its technological strengths in advanced markets.

Taken together, these developments illustrate that the resurgence of India's OFDI is not merely cyclical but reflects a strategic reorientation by Indian firms. By leveraging liberalised policy frameworks, international capital markets, and opportunities created by the pandemic, firms have sought to secure markets, technologies, and supply chains abroad. This trajectory aligns with broader global patterns in which emerging economies increasingly employ outward investment to complement inward flows and accelerate integration into global value chains.

India's gross savings rate has consistently remained below its gross domestic investment rate. For instance, in 2023-24, the country's gross savings stood at 30.3 per cent of GDP, while the investment rate was 33.5 per cent of GDP (Ministry of Statistics and Programme Implementation, 2025). To bridge this savings-investment gap, India has increasingly relied on foreign savings, particularly inward foreign direct investment (IFDI). Yet, despite this reliance, the country has also been able to make growing investments abroad through OFDI.

As noted earlier, there has been a surge in OFDI, particularly since 2019–20 (as shown in Table 1 above), despite a savings-investment gap, with gross savings at 30.3 per cent of GDP compared with investment at 33.5 per cent in 2023–24, partly offset by IFDI. This growth, driven by diverse financing mechanisms, reflects Indian firms' ability to navigate macroeconomic constraints and integrate into global value chains, as evidenced by data on OFDI components—equity, reinvested earnings, other capital, international borrowings, and institutional support. See Table 2.

Table 2: Components of OFDI, 2004-05 through 2023-24 (percentage shares)

	Equity	Reinvested Earnings	Other Capital
2004-05	72	11	17
2005-06	65	18	17
2006-07	85	7	9
2007-08	79	5	16
2008-09	65	5	30
2009-10	67	7	26
2010-11	55	6	39
2011-12	49	9	42
2012-13	56	9	34
2013-14	74	7	19
2014-15	36	31	33
2015-16	49	25	26
2016-17	57	17	26
2017-18	42	23	36
2018-19	47	20	34
2019-20	46	19	35
2020-21	37	20	44
2021-22	48	16	36
2022-23	49	25	26
2023-24	45	27	28
2024-25	53	22	25
Average	56	16	28

Source: Compiled from Database on Indian Economy, Reserve Bank of India,

<https://data.rbi.org.in/#/dbie/reports/Statistics/External%20Sector/International%20Finance>

Table 2 reveals significant shifts in the composition of India's OFDI over the past two decades. Equity investment has remained the predominant mode of OFDI, averaging 56% of total annual outflows between 2004-05 and 2023-24. It peaked in the mid-2000s—exceeding 80% in some

years—but has gradually declined in relative importance in recent years, falling below 50% in several of the last ten years. This trend reflects a more balanced approach to OFDI financing as firms increasingly diversify funding sources.

Reinvested earnings have become a more prominent source, averaging 15% but rising sharply from 2014–15 onwards. In some recent years, they have accounted for over one-fourth of total OFDI, indicating the growing maturity and profitability of Indian enterprises abroad, especially in sectors such as information technology and pharmaceuticals. This shift suggests that firms are leveraging retained profits from overseas operations not only to sustain current business but also to fuel further international expansion.

The share of 'other capital', largely comprising inter-company loans and other debt capital, has also increased notably, averaging 28% throughout the period. Its importance surged after the global financial crisis, providing a flexible means for parent companies to support their affiliates abroad. In recent years, other capital has at times rivalled or even overtaken equity as a principal component of OFDI, reflecting Indian multinationals' increasing reliance on loans abroad to finance their investments abroad.

The data underscores that while equity remains a crucial driver of OFDI, Indian firms now employ a broader mix of financing channels. This diversification—spanning reinvested earnings, intercompany loans, and international borrowings—has been facilitated by policy liberalisation and institutional support, including frameworks established by the Reserve Bank of India and guarantees from Exim Bank and ECGC (Exim Bank, 2022). Moving forward, managing this expanding and increasingly complex financing structure will be critical to sustaining India's OFDI growth and mitigating potential balance-of-payments risks.

International capital markets provide another key financing avenue, with firms accessing external commercial borrowings (ECBs) and special purpose vehicles (SPVs) established since 2005 for overseas acquisitions. Net ECBs have spiked since 2023-24. See Figure 3.

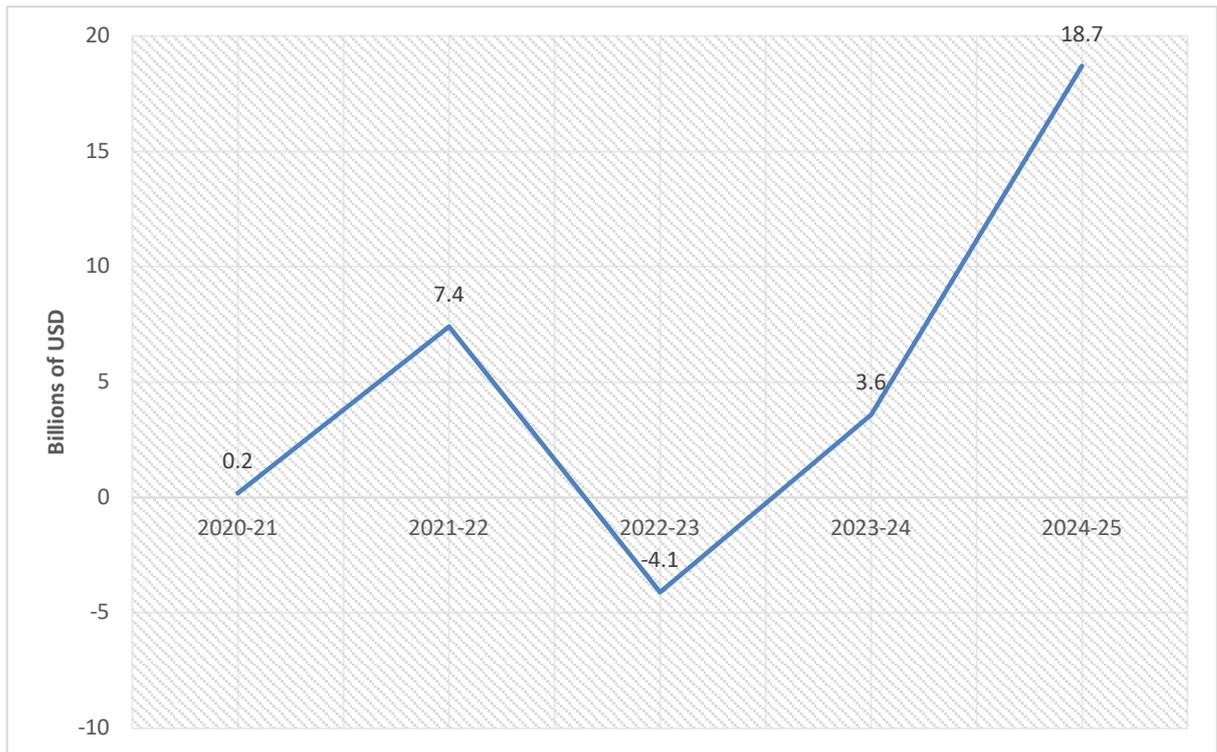


Figure 3: Net ECBs of India, 2020-21 through 2024-25

Source: Reserve Bank of India (2025)

Reliance Industries, for instance, leveraged global liquidity to fund clean energy ventures in Europe and the Middle East, capitalising on favourable post-pandemic interest rates. Studies confirm a positive correlation between ECBs and OFDI in manufacturing, with guarantees worth US\$170.5 billion from 2000–01 to 2018–19 (only 1.3% invoked) supporting such financing, enabling firms to seize global opportunities, such as distressed asset acquisitions, during the pandemic.

Institutional support from the Export-Import Bank of India (Exim Bank) and the Export Credit Guarantee Corporation of India (ECGC) further bolsters OFDI. Exim Bank offers loans and advisory services, while ECGC provides political risk insurance, mitigating financing risks. These mechanisms have supported sectors such as renewables, with firms like ReNew Power, and the automotive sector, through Mahindra & Mahindra's technology partnerships, enhancing firms' ability to undertake overseas ventures despite domestic savings constraints.

4. Characteristics of recent OFDI projects

Since 2000, India's OFDI has undergone a marked transformation, reflecting the growing sophistication and global ambitions of Indian firms. See Table 3. A prominent characteristic has been the strategic sectoral shift from traditional manufacturing towards technology and services. Indian companies have increasingly directed investments into high-value areas such as information technology, software development, pharmaceuticals, and related services, moving away from resource-intensive or low-technology manufacturing industries.

Geographically, India's OFDI has demonstrated considerable diversification, extending well beyond neighbouring countries to a truly global footprint that includes developed markets in Europe and North America as well as emerging regions in Africa and Southeast Asia. This broad spread has enabled Indian firms to access new markets, resources, and talent pools.

A defining and well-documented feature of India's outward foreign direct investment (OFDI) is its pronounced concentration within a small cohort of major conglomerates. According to the latest official data, the top ten Indian firms accounted for 64.2% of the total OFDI stock as of March 2022. This high degree of market concentration underscores the pivotal, disproportionate role of established, diversified business groups—such as the Tata Group, Reliance Industries, and the Aditya Birla Group—in driving the nation's overseas capital expansion. These entities leverage their vast domestic scale, integrated supply chains, and superior access to financial markets to execute large-scale international mergers and acquisitions, particularly in sectors like information technology, manufacturing, and natural resources. Consequently, the geographic and sectoral patterns of India's OFDI are heavily shaped by the strategic priorities of these few corporate giants, presenting a model of internationalisation that is deeply rooted in the country's existing industrial and financial structures.

The observed concentration of outward FDI in information technology, pharmaceuticals, and renewable energy is not accidental. These sectors are characterised by high upfront costs, long gestation periods, and substantial technological and regulatory uncertainty. Access to guaranteed debt financing can therefore play a decisive role in shaping firms'

internationalisation strategies by expanding the feasible set of overseas ventures. Where internal finance alone might constrain firms to smaller or incremental investments, external borrowing supported by guarantees enables larger, more technology-intensive acquisitions and greenfield projects. In this way, financing structures do not merely accommodate international expansion; they actively influence the scale, scope, and ambition of firms' innovation trajectories abroad.

Financing structures have also grown more complex, combining internal funds generated by parent companies with external borrowing and other innovative mechanisms. Entry strategies have adopted a dual mode, blending greenfield investments—building new facilities from scratch—with cross-border mergers and acquisitions, allowing firms to balance rapid market entry with long-term operational control.

Indian OFDI has increasingly focused on integration into global value chains through backward and forward linkages, enabling firms to secure supply chains, enhance efficiency, and add value at multiple stages of production. Sustainability and alignment with Environmental, Social, and Governance (ESG) principles have gained prominence, as evidenced by notable investments in renewable energy and adherence to ethical practices.

Finally, the services and digital transformation domains, particularly IT/IT-enabled services (ITES) and e-commerce, have experienced robust growth, positioning India as a key player in the global digital economy. These characteristics collectively illustrate a mature, strategic, and multifaceted approach to outward investment in the post-2000 era.

5. Importance of debt finance and loan guarantees

We would argue that the growing importance of debt financing has encouraged Indian corporates to undertake outward foreign direct investment (OFDI). This has been facilitated to a considerable extent by the liberalisation of regulations governing loan guarantees by the Government of India. It is therefore useful to pause briefly to examine the role of loan guarantees in supporting OFDI.

Table 3: Key characteristics of leading OFDI projects from India during the 2021 to 2025 period

Key Charecteristics	Description
Strategic Sectoral Shift	Manufacturing to tech/services
Geographic Diversification	Global spread beyond neighbours
Large Conglomerate Dominance	Top 10 firms drive 60%+ OFDI
Complex Financing Structures	Mixed internal/external funding
Dual Mode of Entry	Greenfield + cross-border M&A
Global Value Chain Integration	Backward/forward linkages
Sustainability & ESG Alignment	Renewables & ethical practices

Source: Author’s own compilation based on diverse sources

The compositional shifts in India’s OFDI financing underscore the growing importance of debt-linked instruments and intra-group lending alongside traditional equity flows. As Table 2 shows, equity has remained the single largest component of OFDI over 2004–05 to 2023–24, averaging 56 per cent of annual outflows, but its dominance has declined in recent years. Reinvested earnings have increased in importance, particularly since the mid-2010s, while the share of “other capital”—largely comprising inter-company loans and other debt-like claims—has risen to an average of 29 per cent over the period, sometimes rivaling or surpassing equity in individual years. This diversification reflects the increasing use of international borrowing, intra-group lending, and structured finance to support overseas ventures.

Within this broader shift, loan guarantees have emerged as a critical enabling instrument. For analytical clarity, it is useful to distinguish three related but conceptually distinct forms of guarantees relevant to OFDI:

- (i) Sovereign and sovereign-backed guarantees issued by the Government of India or by public financial institutions acting with sovereign backing (for example, certain lines of credit or project-specific guarantees), which create contingent fiscal liabilities.

- (ii) Corporate guarantees issued by Indian firms under the ODI framework, including guarantees for loans raised by overseas subsidiaries or joint ventures, which create contingent liabilities for the parent and, in aggregate, potential systemic exposure monitored by the Reserve Bank of India (RBI).
- (iii) Bank and export credit–related guarantees, including guarantees issued by Indian banks, and political or commercial risk covers provided by institutions such as the Export-Import Bank of India (Exim Bank) and the Export Credit Guarantee Corporation of India (ECGC), which mediate risk between firms, lenders, and the state.

The policy framework governing these instruments has been progressively liberalised (Table 4). Under the pre-2010 regime, only promoter corporates could issue guarantees automatically, while personal, collateral, or third-party guarantees typically required prior RBI approval. This restricted the ability of Indian business groups to mobilise the full collateral and reputational base of the group in support of overseas ventures and often introduced delays in closing cross-border transactions.

Post-2010, and more comprehensively with the Foreign Exchange Management (Overseas Investment) Rules and Regulations, 2022, the framework was substantially broadened. Indian entities—both financial and non-financial—were permitted to issue a wide range of guarantees under the Automatic Route, including corporate, personal, primary, collateral, and performance guarantees, for wholly-owned subsidiaries (WOSs), joint ventures (JVs), and step-down subsidiaries, subject to certain conditions. This expansion recognised the complex organisational structure of Indian conglomerates and allowed them to pool their financial strength to support international operations.

At the same time, the regulations introduced explicit safeguards (Department of Economic Affairs (2021). All overseas financial commitments—including equity, loans, and guarantees—must remain within an overall ceiling of 400 per cent of the investing entity’s net worth, based on the latest audited balance sheet. Guarantees must specify a defined amount and duration, with open-ended guarantees prohibited. All guarantees are to be reported to the RBI through the prescribed ODI forms within 30 days of issuance, thereby enhancing transparency and enabling supervisory monitoring. Guarantees issued by Indian banks for overseas

WOSs/JVs or step-down subsidiaries are excluded from the 400 per cent ceiling but remain subject to prudential norms and exposure limits for banks.

Empirical evidence suggests that these regulatory changes have had a material impact on the use of guarantees. Drawing on data RBI Department of Economic Affairs data (Khan, 2012; Department of Economic Affairs), Figure 4 shows a substantial increase in the volume of guarantees associated with overseas investment between 2000–01 and 2024-25, particularly after the 2010 liberalisation that brought a broader range of guarantees under the automatic route.

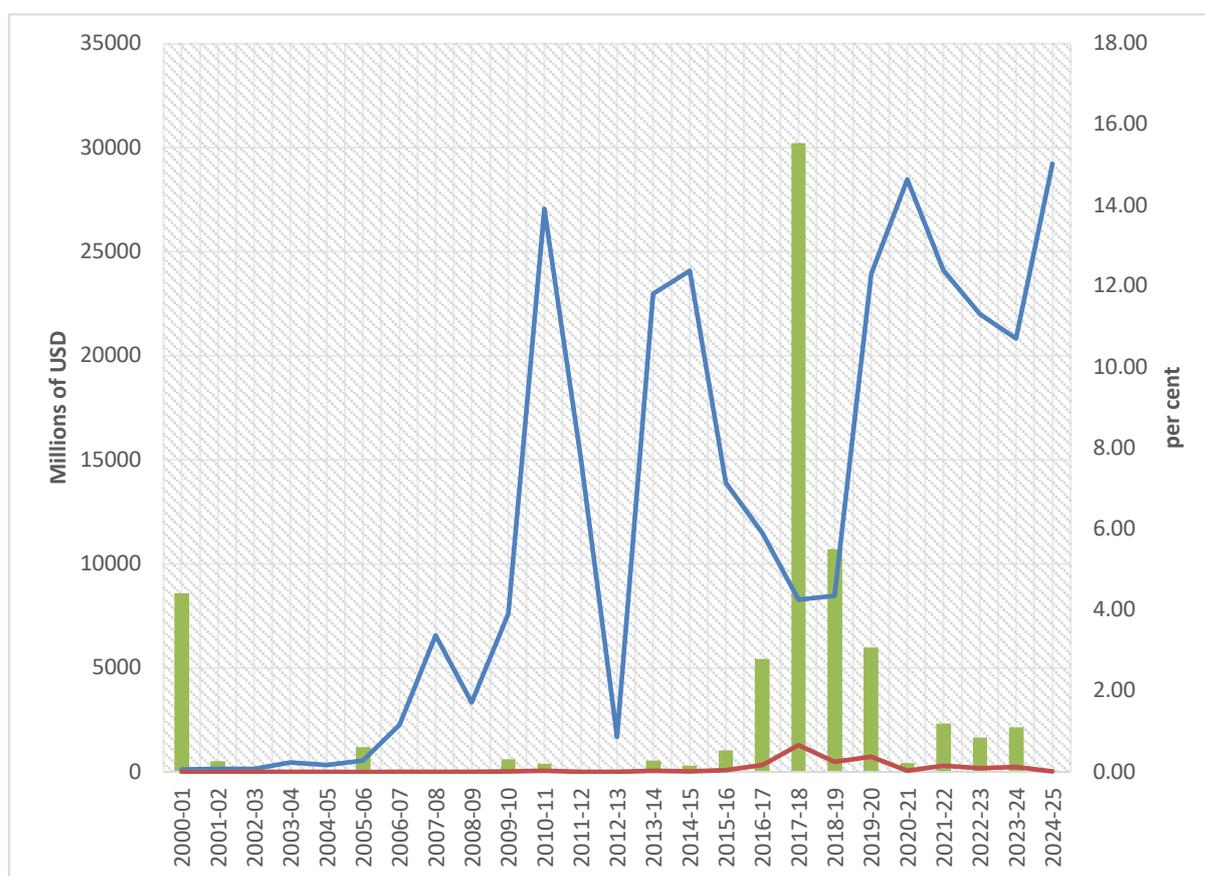


Figure 4: Loan guarantees issued and invoked, 2000-01 through 2024-25

Source: Khan (2012), Department of Economic Affairs (various issues)

A striking feature of the available evidence is the low recorded invocation rate relative to issuance volumes. For 2000–01 to 2024-25, invoked

guarantees averaged around 1.48 per cent of the value of guarantees issued, and there have been no publicly reported large-scale guarantee calls in the more recent period covered. This pattern suggests that, to date, guarantees have functioned primarily as credit-enhancement tools rather than as major fiscal drains. It may also reflect conservative underwriting standards, the 400 per cent net worth ceiling, and the prohibition of open-ended guarantees. However, the limited granularity of data—particularly regarding the distribution of guarantees across sectors, firm types, and maturity profiles—prevents a full assessment of underlying risk.

While historically low invocation rates suggest that guarantees have functioned primarily as credit-enhancement instruments, this outcome warrants careful interpretation. Guarantee calls are inherently pro-cyclical, tending to rise sharply during periods of macroeconomic stress rather than during stable or expansionary phases. The period covered by available data largely coincides with relatively benign global financial conditions, punctuated only briefly by episodes such as the global financial crisis and the COVID-19 shock. It therefore remains an open question how invocation rates would behave under more severe scenarios, such as a synchronised global downturn, sharp currency depreciation, or sector-specific collapses. Recognising this conditionality is essential for assessing the true risk profile of guarantee-backed internationalisation.

In parallel, institutional risk-sharing mechanisms have reinforced the guarantee channel. Exim Bank provides loans, lines of credit, and selected guarantee products that support Indian firms and projects abroad, while ECGC offers political and commercial risk insurance on cross-border exposures. These instruments reduce direct risk for commercial lenders and Indian corporates, thereby complementing the ODI-linked guarantee framework. For large outward projects—especially in infrastructure and renewables—combinations of group guarantees, bank guarantees, Exim/ECGC covers, and sovereign-backed facilities are often employed, resulting in complex and partly opaque risk allocations between firms and the state.

Overall, the evolution of the regulatory framework and the descriptive evidence point to a structural shift in the way Indian firms finance OFDI. Guarantees, alongside ECBs, intra-group loans and reinvested earnings, now constitute a central component of the toolkit through which firms

bridge the gap between domestic savings constraints and their international expansion ambitions (Knowledge at Wharton, 2006). This underscores the need to examine not only how guarantees support OFDI but also how they transmit risk to the sovereign balance sheet and to the external account.

Table 4: Liberalisation of Rules Regarding Loan Guarantees, Pre- and Post-2022

Aspect	Provision under India's Overseas Investment Regulations	Implications
Initial framework (pre-2022)	<p>Only promoter corporates could issue guarantees automatically under the Indian Automatic Route. Personal, collateral, or third-party guarantees (e.g., those from group companies or associates) require RBI approval on a case-by-case basis. Guarantees were limited to wholly owned subsidiaries (WOSs) or joint ventures (JVs) with significant Indian equity participation.</p>	<p>Indian firms faced procedural delays and restricted flexibility in structuring guarantees, limiting their ability to secure credit or contracts for overseas ventures. This constrained competitiveness in global markets.</p>
Expanded framework (post-2022)	<p>Indian entities (financial and non-financial) can issue a full range of guarantees—corporate, personal, primary, collateral, or performance guarantees—under the Automatic Route for WOSs, JVs, and step-down subsidiaries (including second-level subsidiaries). No prior RBI approval is required for most guarantee issuances, including those for non-financial entities supporting subsidiaries.</p>	<p>Significantly enhances flexibility, enabling Indian firms and business groups to use diverse guarantee structures to support overseas ventures. Simplifies financing for global operations, boosting competitiveness and integration into global value chains.</p>
Safeguard 1: Ceiling on financial commitment	<p>All overseas investments, including guarantees, equity, and loans, must remain within the overall ceiling of 400% of the Indian entity's net worth (as per the latest audited balance sheet). Guarantees issued by non-financial entities for step-down subsidiaries are explicitly included in this ceiling.</p>	<p>Prevents excessive contingent liabilities, ensuring financial prudence while allowing firms to expand abroad. Balances risk management with the need for global outreach, protecting domestic stakeholders.</p>
Safeguard 2: No open-ended guarantees	<p>Guarantees must specify a defined amount and duration. Open-ended or unlimited guarantees are prohibited to ensure clarity and limit exposure.</p>	<p>Reduces uncertainty and systemic risk by ensuring contingent liabilities are measurable and time-bound, enhancing financial stability for Indian entities.</p>

Safeguard Reporting requirement	3:	All guarantees must be reported to the RBI through the prescribed Overseas Direct Investment (ODI) Form within 30 days of issuance, along with other financial commitments. Non-compliance may attract penalties under FEMA, 1999.	Strengthens regulatory oversight and transparency, enabling the RBI to monitor systemic exposure and ensure compliance with the overseas investment framework.
Special provision for banks		Guarantees issued by Indian banks for overseas WOSs/JVs or step-down subsidiaries are excluded from the 400% net worth ceiling but are subject to RBI's prudential norms and specific exposure limits for banks. Banks must also report these guarantees to the RBI.	Differentiates corporate and banking risks, allowing banks to facilitate overseas ventures while managing risks through established prudential regulations, ensuring alignment with banking sector stability.

Source: Based on Reserve Bank of India (2010 and 2022)

6. Critical assessment of loan guarantees as a financing support in the Indian context

Applying the analytical framework outlined in Section 2, India's approach to loan guarantees in OFDI financing aligns predominantly with the private channel depicted in Figure 2(a), where the sovereign balance sheet remains largely isolated. Direct sovereign guarantees for corporate overseas borrowing are exceptionally rare, and government-guaranteed debt for the non-financial private sector stands at zero as of end-March 2025 (Ministry of Finance, 2025). Most guarantees take the form of corporate commitments (issued by parent firms under the ODI framework) or bank-mediated instruments, keeping risk primarily on private balance sheets. This market-led structure contrasts sharply with models in other emerging economies, such as China, where extensive state-backed guarantees create substantial contingent liabilities under the Figure 2(b) scenario (Irwin and Gallagher, 2014).

This restrained approach has enabled significant OFDI growth while minimising direct fiscal exposure. Corporate guarantees, liberalised since 2010 and further in 2022, have functioned mainly as credit-enhancement tools, lowering borrowing costs and facilitating access to international markets without routine sovereign involvement. Institutional mechanisms from Exim Bank (direct loans and Overseas Investment Finance) and ECGC (risk insurance) provide complementary support but rarely involve standalone sovereign guarantees for commercial OFDI. Sovereign-backed

Lines of Credit (LoCs), extended indirectly through Exim Bank, support project execution abroad but remain developmental rather than direct corporate finance (see Box 1).

Box 1: Lines of Credit and OFDI

- **Nature:** Concessionary loans extended by the Government of India, often backed by sovereign support, to foreign governments (not directly to Indian companies) to finance development projects in recipient countries.
- These LoCs enable Indian companies to participate in infrastructure and project execution abroad, indirectly supporting Indian firms' internationalisation (e.g., construction, rail, ports, energy).
- These credits are extended through the Export-Import Bank of India but the sovereign guarantee element lies in the Government of India support of these credits, particularly as part of the Indian Development and Economic Assistance Scheme (IDEAS).
- Till, March 31, 2025, India has extended over 300 LoCs worth about US\$32 billion to around 68 countries covering diverse sectors (railways, roads, power, airports, hospitals etc.).
- **Example of its uses:**
 - Projects financed via LoCs can involve Indian companies executing contracts, thereby expanding overseas operations.
 - Although these are sovereign-backed, they are developmental credits rather than commercial OFDI guarantees.

Source: Rajya Sabha (2025)

As a result, OFDI-related external borrowing appears almost entirely under non-guaranteed private categories in balance-of-payments and external debt statistics, preserving the "isolated sovereign" dynamic. Direct sovereign guarantees for private sector loans are practically non-existent in India, with state support having shifted mainly towards diplomatic

facilitation⁴, selected Lines of Credit, and political risk insurance. For instance, according to the Ministry of Finance (2025), foreign creditors’ guaranteed claims on Indian residents are confined to government-guaranteed commercial borrowings and direct sovereign debt in the form of multilateral and bilateral official loans⁵. Outward-FDI-related financing appears entirely under non-government, non-guaranteed external debt categories. In any case, guaranteed debt to total external debt has been decreasing. See Table 4.

Table 4: External debt of the Private sector (non-financial) that is guaranteed by the government (in billions of USD)

	Financial Sector	Public Sector (non-financial)	Private Sector (non-financial)	Total Guaranteed Debt	Ratio of Guaranteed Debt to Total External Debt (%)
2022	8.1	3.3	0	11.4	1.8
2023	8	3.1	0	11.1	1.8
2024	7.5	2.8	0	10.3	1.6
2025	7.6	2.2	0	9.8	1.3

Source: Ministry of Finance (various issues)

The benefits of this private-dominant model are evident at the micro level. Guarantees have allowed large conglomerates to leverage group strength for ambitious overseas ventures in sectors like renewables, IT, and pharmaceuticals, bridging domestic savings constraints without immediate public cost. See Box 2. Low recorded invocation rates—historically around

⁴ A prominent example of diplomatic facilitation supporting Indian OFDI is the initiative by the Ministry of External Affairs to establish dedicated permanent desks within Indian embassies in key host countries. These desks offer targeted assistance to Indian companies aiming to establish permanent establishments abroad, including guidance on local regulations, market entry strategies, risk mitigation, and overcoming bureaucratic obstacles, thereby enabling closer integration into global value chains without direct financial exposure for the government. This mechanism has supported several recent expansions, such as Larsen & Toubro's US\$2.4 billion investment in its Saudi Arabia subsidiary to carry out large-scale hydrocarbon projects, Adani Group's joint venture with Japan's Kowa for green hydrogen production, and Oyo's US\$525 million acquisition of the US-based Motel 6 chain. Such non-financial diplomatic support aligns with the evolved policy preference for market-driven OFDI, complementing tools like bilateral investment treaties and political risk insurance (Financial Express, 2025)

⁵ According to the Ministry of Finance (various issues), “there is no government guaranteed debt pertaining to the private sector (non-financial)”.

1.5 per cent up to 2018–19, with no large-scale calls reported in recent years—suggest effective risk management through prudential safeguards, including the 400 per cent net-worth ceiling and mandatory reporting.

Box 2: Real-Life Examples of Corporate Guarantees Enabling Ambitious OFDI by Indian Conglomerates

Corporate guarantees under India's liberalised ODI framework have allowed large business groups to leverage their balance sheets and reputational strength to access international debt markets on favourable terms, supporting major overseas ventures while bypassing immediate reliance on scarce domestic savings.

- **Renewables Sector – Reliance Industries:** In 2021, Reliance Industries (through Reliance New Energy Solar Ltd.) acquired Norway-based REC Solar Holdings AS, a leading solar module manufacturer, for approximately US\$771 million. Part of the transaction and related refinancing was funded through a US\$736 million green loan package, comprising term loans, working capital facilities, and a US\$336 million bank guarantee facility. The financing was secured by corporate guarantees from group entities, demonstrating how parent-backed commitments lowered borrowing costs and enabled swift execution of a strategic international clean energy investment.
- **Pharmaceuticals Sector – Sun Pharmaceutical Industries:** Sun Pharma has pursued a series of cross-border acquisitions to build its global specialty and generics portfolio, including the full takeover of Taro Pharmaceutical Industries (Israel/USA) completed by 2012 and subsequent bolt-on deals in the US and Europe. These transactions have typically combined internal funds with external debt, facilitated by the group's ability to issue corporate guarantees for overseas subsidiaries, leveraging the parent's strong balance sheet to secure international credit without direct sovereign involvement.
- **IT Sector – Tata Consultancy Services (TCS):** As part of the Tata Group's global expansion, TCS has established and scaled delivery centres and subsidiaries across North America, Europe, and Asia-

Pacific. Financing for these organic overseas investments frequently involves inter-company loans and debt raised locally by subsidiaries, backed by parent or group guarantees, enabling efficient capital deployment while minimising currency and refinancing risks.

Source: Diverse sources

These cases illustrate how guarantees serve as powerful, low-invocation credit-enhancement tools, bridging India's savings-investment gap and supporting corporate internationalisation at minimal immediate public fiscal cost.

Yet elements of the Figure 2(b) channel persist, warranting caution. Although direct sovereign guarantees are minimal, indirect exposures arise through LoCs and occasional involvement by public institutions. More broadly, the heavy concentration of guaranteed issuance among a few large conglomerates means that firm-level distress could, in tail-risk scenarios, generate systemic pressure with spillover potential for public finances (e.g., via public-sector banks). Guarantees supporting foreign-currency debt also finance part of the current account deficit in a context of structural savings-investment gaps, subtly shifting external liabilities toward instruments with quasi-contingent claims. Data limitations exacerbate these concerns: fragmented reporting on guaranteed portfolios, sectoral distribution, and maturity profiles hinders comprehensive stress testing.

A comparative institutional perspective helps clarify what is distinctive about India's approach to supporting corporate internationalisation. Unlike Brazil, where the state development bank BNDES has historically played a central role in directly financing overseas expansion (de Suza et al, 2015), or China, where policy banks and implicit sovereign guarantees underpin large-scale outward investment, India has relied predominantly on corporate and bank-mediated guarantees with minimal direct sovereign backing. This architecture limits the immediate fiscal footprint of outward FDI while preserving firms' access to international capital markets. However, it also shifts greater responsibility for risk assessment onto private balance sheets and concentrates access among large, creditworthy conglomerates. The Indian model thus represents a deliberate trade-off

between fiscal insulation and the breadth of support, privileging financial discipline over universal access.

In summary, India's calibrated use of loan guarantees has effectively supported corporate internationalisation while adhering closely to the private-risk model of Figure 2(a), avoiding the sovereign-risk transmission of Figure 2(b) seen elsewhere. This has sustained OFDI momentum at low apparent fiscal cost. However, rising volumes and persistent macroeconomic imbalances call for strengthened safeguards.

The concentration of outward FDI and guarantee issuance among a small number of large, diversified Indian business groups raises important political economy and distributional questions that are closely linked to the distinctive organisational features of these conglomerates. Unlike stand-alone firms, Indian business groups are characterised by pyramidal ownership structures, extensive cross-holdings, and active internal capital markets, which enable the reallocation of financial resources and reputational capital across affiliated entities (Khanna and Palepu, 2000). In this context, parent-issued guarantees for overseas subsidiaries are not merely arm's-length credit enhancements but part of a broader group-level strategy to mitigate information asymmetries and lower external financing costs, potentially improving allocative efficiency for large, technology-intensive international investments. At the same time, channelling guarantee support through financially robust conglomerates may reduce default risk but risks reinforcing existing asymmetries in access to international finance, effectively subsidising the global expansion of already dominant firms while smaller enterprises remain constrained. By lowering the perceived cost of capital, such guarantees may also encourage higher leverage or risk-taking in overseas ventures. These dynamics underscore that loan guarantees are not simply technical financial instruments but integral components of industrial policy that shape corporate power, risk behaviour, and patterns of international integration.

At the same time, the business group structure raises important governance and distributional concerns. Prior research on Indian groups highlights that intra-group financial support mechanisms, including guarantees, can also facilitate preferential resource allocation and value extraction, potentially disadvantaging minority shareholders in lower-tier firms (Gopalan, Nanda, and Seru, 2007). The use of guarantees across affiliated entities therefore

underscores the importance of robust disclosure norms, regulatory oversight, and minority shareholder protections to ensure that such commitments serve genuine business purposes rather than tunnelling objectives. Recognising these dual effects—efficiency-enhancing under market imperfections, yet potentially distortionary under weak governance—helps situate India’s guarantee-based support for corporate internationalisation within a broader political economy of business groups and state-mediated finance.

Policy should prioritise:

- Enhanced data transparency, including a consolidated RBI-Ministry of Finance dashboard on all ODI-linked guarantees.
- Differentiated support to broaden access beyond conglomerates (e.g., targeted facilities for SMEs); and
- Mandatory portfolio stress-testing incorporating adverse global and currency scenarios.

Such measures would reinforce the advantages of private channels while mitigating latent risks, ensuring that guarantees remain a prudent enabler of India's global ambitions.

7. Conclusion

Loan guarantees have become a crucial tool within India's OFDI toolkit, their increasing importance driven by regulatory liberalisation, especially the reforms of 2010 and 2022. This strategic move towards debt-based financing reflects both the growing sophistication of Indian multinationals and their need to access international capital more effectively. Data confirm that guarantees now operate alongside, and often surpass, traditional equity contributions in volume, highlighting their role in reducing risks associated with cross-border credit and helping firms pursue larger, more competitive overseas ventures.

This expansion has been deliberately managed within a framework of prudential safeguards, such as the 400% net worth ceiling and obligatory reporting requirements. These measures have sought to balance the need for global growth with financial stability, resulting in historically low rates of guarantee invocation. However, the increasing scale of these contingent liabilities requires ongoing oversight. To ensure that loan guarantees continue to serve as a catalyst for sustainable internationalisation, policy

must evolve from a facilitative to a strategic and risk-aware stance. We propose three concrete policy measures:

- **Enhance Transparency and Oversight with a Public Dashboard:** The contingent nature of loan guarantees places them largely off the public balance sheet, obscuring the state's full fiscal exposure. To address this, the Ministry of Finance, in conjunction with the RBI, should develop and maintain a public dashboard for sovereign and major public institutional guarantees. This platform should provide aggregate and sectoral data on guarantees issued, outstanding exposures, and invocation history, updated quarterly. Such transparency would strengthen parliamentary oversight, improve market discipline, and allow for more informed public debate on the fiscal risks of India's global expansion.
- **Promote Inclusive Growth with Tiered Guarantee Schemes:** Current access to guarantee-backed financing is heavily concentrated among large conglomerates. To democratize the benefits of internationalisation, a tiered guarantee scheme for Small and Medium Enterprises (SMEs) should be introduced. This could involve a dedicated risk-sharing pool managed by institutions like EXIM Bank and SIDBI, offering guarantees at concessional fees for qualifying SMEs with viable overseas projects. The tiering could be based on firm size, transaction value, and sectoral priority, ensuring support is targeted and fiscally responsible while broadening the base of India's global investors.
- **Implement Proactive Risk Management through Stress-Testing:** The pro-cyclical nature of guarantee risk—where invocation likelihood peaks during economic downturns—necessitates forward-looking risk assessment. Regulators should mandate regular stress-testing of guarantee portfolios. Financial institutions and major issuing entities should be required to model the impact of plausible adverse scenarios—such as synchronized global recessions, sharp currency depreciations, or sector-specific crises—on their guarantee books. The results should inform dynamic provisioning requirements and contingency planning, ensuring the system is resilient to shocks.

In summary, loan guarantees have proven their effectiveness in speeding up India's corporate internationalisation. Moving forward, policy should

shift from simply promoting growth to actively managing, diversifying, and securing the financial infrastructure that underpins it. By adopting a transparent, inclusive, and resilient framework—anchored by a public dashboard, SME-focused schemes, and rigorous stress-testing—India can protect its long-term fiscal stability while enabling a wider range of firms to compete and flourish in the global economy. This balanced approach will ensure that the pursuit of global ambitions is based on prudence and shared opportunity.

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