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EDITORIAL ANALYSIS

India Needs Durable Capital, Not Hot Money

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CURATED & WRITTEN BY

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Business Standard 2 July 2026 **GS3**

Source: ujyari.com — researched, fact-checked & UPSC-mapped



INTERVIEW ANGLE

"Foreign portfolio investors have pulled record sums from India, yet FDI prospects look strong. What is the difference between hot money and durable capital, and why does it matter for a growing economy?"

Source: [Original editorial](#) Business Standard

🟢 Every fact web-verified against primary sources (<https://ujyari.com/how-we-verify/>)

WHY THIS MATTERS NOW

Through **mid-2026**, foreign portfolio investors pulled **record sums** from Indian equities, dropping FPI ownership of listed stocks to a **multi-year low**. Meanwhile the **June 2026 US-Iran memorandum** eased **Strait of Hormuz** (<https://ujyari.com/terms/strait-of-hormuz/>) tensions and oil-shipping risk premiums fell. For an aspirant, this is a sharp GS3 case on the **quality of foreign capital, external financing and investment-led growth**.

THE CRUX IN 60 WORDS

Hot money (foreign portfolio investment) is volatile and pro-cyclical: it fled India in record amounts through mid-2026. **Durable capital** (FDI, long-horizon pension, sovereign and Gulf funds) brings technology, jobs and stays through cycles. With **Strait of Hormuz** tensions easing, India has a window to court stable capital through **policy stability, infrastructure and ease of doing business** (<https://ujyari.com/terms/ease-of-doing-business/>), not to chase hot money.

THE ISSUE, DECODED

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CONCEPT	WHAT IT MEANS	WHY IT MATTERS
Hot money (FPI)	Short-term foreign equity/debt flows	Volatile, exits at first shock, moves the rupee
Durable capital (FDI)	Long-term ownership stakes in firms	Brings technology, jobs, stays through cycles
Strait of Hormuz	Chokepoint (https://ujjiyari.com/vocab/chokepoint/) for ~20% of global oil trade	Its risk premium drives India's oil bill and rupee
Global Capability Centres	Offshore hubs of multinationals in India	A growing, durable FDI magnet

THE ANALYSIS: WHY QUALITY OF CAPITAL MATTERS

- ❶ **Hot money fled.** FPIs pulled record sums through mid-2026, dropping FPI ownership of listed stocks to a multi-year low under a strong dollar, high US yields and oil risk.
- ❷ **Durable capital stays.** FDI and long-horizon funds bring technology, management and jobs, and finance real investment, not just asset prices.
- ❸ **The window opened.** The June 2026 US-Iran memorandum eased Strait of Hormuz tensions; transit normalised and risk premiums fell, improving India's macro backdrop.
- ❹ **India's FDI pitch is strong.** Robust fundamentals, big-ticket announcements, Global Capability Centres and Gulf capital as an increasingly durable pillar give India a real story to sell.

DATA AND INSTITUTIONS VAULT

record **FPI outflows** through mid-2026; FPI ownership of Indian listed stocks at a **multi-year low** (down from levels above 20% earlier this decade). **Trigger:** strong US dollar, elevated US bond yields, West Asia oil risk, global capital chasing **AI in East Asia**. **Easing:** **US-Iran memorandum of June 2026** normalised **Strait of Hormuz** transit; oil-shipping risk premiums fell. **Concepts:** FDI vs FPI; hot money; pro-cyclical flows; current-account financing; Global Capability Centres (GCCs); Gulf (GCC) FDI as a durable pillar. **Chokepoint fact:** the Strait of Hormuz carries roughly a fifth of global oil trade.

THE DEBATE

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Argument for prioritising durable capital: Hot money is volatile and destabilising; India's investment decade in manufacturing and infrastructure needs patient capital that brings technology and jobs and stays through cycles.

Argument that portfolio flows still matter: FPIs deepen and add liquidity to capital markets, help finance the current-account deficit and reward reform; excluding them would raise the cost of capital.

Balanced verdict: The goal is balance tilted toward durability. India should keep its markets open to portfolio flows but structurally court FDI and long-horizon funds, so that a sudden exit of hot money does not derail investment.

HOW TO THINK ABOUT THIS (TRANSFERABLE SKILL)

The same headline inflow can be stabilising or destabilising depending on its horizon and stickiness. Distinguish flows by their behaviour under stress: hot money exits, durable capital stays. This lens applies to public debt, deposits and even talent, always ask about the stickiness of the resource, not just its size.

DIAGRAM-IN-WORDS

Global stress (strong dollar + US yields + oil risk) -> hot money exits (record FPI outflows, ownership at multi-year low) -> rupee + equity volatility -> Hormuz tensions ease (US-Iran memo, June 2026) -> window opens -> court durable capital (FDI + long-horizon + Gulf funds) via policy stability + infrastructure + ease of doing business -> investment-led growth

THE WAY FORWARD

- ① **Make policy predictable.** Stable tax rules and no retrospective surprises are what long-horizon investors price first.
- ② **Build cheaper, faster infrastructure.** Logistics, power and land at competitive cost are the real magnet for manufacturing FDI.
- ③ **Deepen ease of doing business.** Cut approvals, digitise clearances and reduce compliance friction to convert intent into inflows.
- ④ **Channel durable capital well.** Direct FDI and long-horizon funds into manufacturing, infrastructure and Global Capability Centres, and court Gulf and pension capital.

THE TAKEAWAY BOX

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Contrast volatile portfolio flows with durable FDI, argue that a fast-growing economy needs patient capital, and set out the policy, infrastructure and ease-of-doing-business agenda to attract it.

“India cannot build a manufacturing decade on money that flees at the first tremor.”

FDI vs FPI; hot money; Strait of Hormuz carries ~20% of global oil trade; US-Iran memorandum (June 2026); Global Capability Centres; GCC FDI as a durable pillar.

Should a government tailor policy to please volatile portfolio investors, or hold a steady course to win patient capital even at short-term market cost?

UPSC has asked on FDI vs FPI, external financing and the quality of investment inflows. This editorial refreshes that debate for 2026.

balance of payments, FDI policy, ease of doing business, infrastructure financing, Strait of Hormuz, energy security (<https://ujjyari.com/terms/energy-security/>).

Sources: *Business Standard* (<https://www.business-standard.com/opinion>), *RBI* (<https://www.rbi.org.in>), *DPIIT* (<https://dpiit.gov.in>)

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KEY ARGUMENTS AT A GLANCE

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With foreign portfolio investors trimming India exposure and Strait of Hormuz tensions easing, India must shift its financing strategy toward stable, long-term capital, FDI and long-horizon funds, to finance investment and growth, through better infrastructure, policy stability and ease of doing business, rather than relying on volatile hot money.


SUPPORTING

- Portfolio flows are volatile and pro-cyclical: FPIs pulled record sums from Indian equities through mid-2026, dropping FPI ownership of listed stocks to a multi-year low, showing how quickly hot money exits under global stress.
- Durable capital, FDI, long-horizon pension and sovereign funds, brings technology, management and jobs, and does not flee at the first shock, so it finances real investment rather than just inflating asset prices.
- The external context has improved: with the June 2026 US-Iran memorandum easing Strait of Hormuz tensions and oil-shipping risk premiums falling, India has a window to reset its pitch toward long-term investors.


COUNTER

Portfolio flows still matter and cannot be dismissed: they deepen and provide liquidity to capital markets, help finance the current-account deficit, and reward reform; the goal is a better balance, not the exclusion of portfolio capital.


WAY FORWARD

Attract durable capital through predictable policy, faster and cheaper infrastructure, deeper ease of doing business, stable tax rules, and by channelling FDI and long-horizon funds into manufacturing, infrastructure and Global Capability Centres.

**MAINS ANSWER FRAMEWORK**Ujjayanti Current Affairs - ujjayanti.com · Free Daily Current Affairs for UPSC & State PCS**QUESTION**

"For a capital-scarce, fast-growing economy, the quality of foreign capital matters as much as the quantity." Discuss with reference to India's need for durable FDI over volatile portfolio flows. (250 words)

INTRODUCTION

A capital-scarce, fast-growing economy needs foreign capital, but not all capital is equal. As portfolio investors trimmed India exposure through mid-2026 and Strait of Hormuz tensions eased, the lesson is clear: India needs durable capital, not hot money.

BODY

The case rests on the nature of the flows. Foreign portfolio investors pulled record sums from Indian equities through mid-2026, and FPI ownership of listed stocks fell to a multi-year low, driven by a strong dollar, elevated US yields, West Asia oil risk and global capital chasing AI in East Asia.

Such hot money is volatile and pro-cyclical: it arrives in good times and exits at the first shock, amplifying rupee and equity swings. Durable capital behaves differently.

FDI and long-horizon pension, sovereign and Gulf funds bring technology, management and jobs, finance real investment rather than asset prices, and stay through cycles. India's FDI prospects for 2026 look robust on strong fundamentals, big-ticket announcements and Global Capability Centres, with Gulf capital emerging as an increasingly durable pillar.

The external window has also improved: the June 2026 US-Iran memorandum eased Strait of Hormuz tensions, transit normalised and oil-shipping risk premiums fell. The counter, that portfolio flows still deepen markets and finance the current account, is fair; the aim is a better balance, tilting toward durability, not banishing portfolio capital.

CONCLUSION

India cannot build a manufacturing and infrastructure decade on money that flees at the first tremor. Predictable policy, better infrastructure and real ease of doing business are how it wins durable capital over hot money.

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