1. RBI Liquidity Measures – Economy

The Reserve Bank of India (RBI) rolled out a set of liquidity measures designed to make capital more accessible for investors and companies.

RBI's Key Measures to Boost Capital Market Participation and Credit Growth

The Reserve Bank of India (RBI) recently announced a series of measures aimed at enhancing capital market participation, corporate credit flow, and liquidity. These measures reflect the RBI's proactive approach to address market stress, foreign investor withdrawals, and stagnating corporate lending, while maintaining financial stability through macroprudential tools. The reforms are considered the most significant capital market policy changes by RBI in over a decade.

Major Measures Announced by RBI

Acquisition Financing - Banks are now permitted to fund acquisitions, mergers, and buyouts for the first time. This move allows financial institutions to participate in corporate consolidation deals, addressing a longstanding demand from banks. It is expected to boost corporate restructuring and growth, especially in sectors with muted fresh capacity creation.

Enhanced Lending Limits Against Shares - RBI raised the loan limit against shares for individual investors from ₹20 lakh to ₹1 crore, a fivefold increase. The previous ceiling had not been revised since 1998, and the hike reflects inflation-adjusted realities and evolving market dynamics. This measure levels the playing field between banks and NBFCs, as NBFCs historically had more flexibility in lending against securities.

IPO Financing Boost - The retail IPO financing limit has been increased from ₹10 lakh to ₹25 lakh per investor. The enhancement is timely, given the pipeline of high-profile IPOs in India, and is expected to encourage greater retail participation in primary markets. This also provides liquidity support for retail investors seeking to invest in upcoming offerings.

Debt Securities Lending - RBI has removed regulatory ceilings on loans against listed debt securities, giving banks unprecedented flexibility. This step aims to deepen market activity, enhance liquidity, and facilitate broader access to credit against tradable instruments.

Rolling Back Curbs on Large Borrowers - The 2016 framework penalizing banks for lending to corporates with system-wide exposure above ₹10,000 crore is being withdrawn. Systemic risks will now be managed via macroprudential tools, while individual exposure caps under the Large Exposure Framework remain in place. This signals RBI's willingness to re-engage with large corporates and expand credit to strategically important sectors.

Rationale for the Measures

Addressing Liquidity Pressures - Foreign Portfolio Investors (FPIs) have withdrawn approximately $21 billion from Indian equities in the past year, creating downward pressure on the rupee and dampening market sentiment. RBI's relaxations aim to offset liquidity shortfalls and strengthen domestic participation in capital markets.

Mitigating Global Uncertainties - Measures come amid trade tensions with the US, H1-B visa restrictions, and geopolitical tensions in West Asia and Europe, which have made investors cautious. By facilitating easier credit access and investment financing, RBI seeks to stabilize markets and support growth.

Boosting Corporate Credit Growth - Corporate lending has been the slowest segment of overall bank credit growth. Acquisition financing allows banks to tap into consolidation-driven growth opportunities, particularly where new capacity addition is limited.

Leveling the Field with NBFCs - Previously, banks faced strict limits on loans against shares (₹20 lakh) and loan-to-value restrictions, while NBFCs had greater flexibility. By raising limits and removing debt security ceilings, RBI equalizes competition, enhancing banks' role in the capital market ecosystem.

Re-engaging with Large Corporates - Rolling back 2016 restrictions signals RBI's readiness to allow banks to fund large corporate groups, fostering economic consolidation and strategic investment.

Expected Outcomes

Enhanced Market Participation - Measures are expected to boost investor confidence, particularly among retail investors and high-net-worth individuals. Retail and institutional investors will benefit from improved liquidity against shareholdings and greater financing options.

Market Deepening - The reforms are designed to increase participation in both primary and secondary markets. Greater credit access is expected to enhance liquidity flows, deepen financial intermediation, and support price discovery mechanisms. With ₹8 billion anticipated from IPOs in Q4 2025, these measures are well-timed to support heightened market activity.

Economic Growth Support - By expanding credit access while managing systemic risk via macroprudential tools, the RBI seeks to stimulate market-led economic growth. Aligns with the Viksit Bharat 2047 vision of financial inclusion, credit deepening, and sustainable capital market development. Expected to make foreign borrowing cheaper and easier for Indian corporates, facilitating global competitiveness.

Significance of the Measures

1. Marks a decade-high capital market reform by the RBI, enabling banks to take a larger role in funding and supporting capital markets.
2. Reinforces the RBI's dual mandate - promoting credit growth and market development while ensuring financial stability.
3. Supports India's corporate consolidation, retail market participation, and structural capital market deepening, crucial for sustainable economic growth.
4. Enhances India's attractiveness to foreign investors, even amid global uncertainties and domestic liquidity pressures.

Conclusion

RBI's measures represent a comprehensive recalibration of banking and capital market regulations to boost liquidity, credit, and investor confidence. They address structural bottlenecks in corporate lending, retail IPO participation, and large-scale acquisition financing. By combining expanded credit access, regulatory flexibility, and systemic safeguards, these reforms are expected to strengthen India's capital markets, support economic growth, and align with long-term financial inclusion goals.

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