

The RBI Unveils Policy Reforms: A Boost to Credit and Investment

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Summary

The Reserve Bank of India (RBI) unveiled a policy package to boost credit flow, deepen markets and support exports. While keeping the policy rate unchanged, it eased corporate financing rules, raised lending limits against shares and initial public offerings and reduced risk weights for infrastructure finance. Extended export repatriation timelines and steps to promote rupee internationalisation aim to strengthen external stability. The package signals confidence, encourages investment and supports India's growth as an investor-friendly economy.

The Reserve Bank of India (RBI) announced a comprehensive set of measures alongside its bi-monthly monetary policy statement made on 1 October 2025 ([Press Releases - Reserve Bank of India.html](#)). While the policy rate was retained at 5.5 per cent, the announcement was accompanied by wide-ranging structural and regulatory steps designed to deepen credit markets, promote exports, strengthen the financial system and internationalise the Indian rupee. Collectively, these measures are designed to improve the investment climate and sustain India's growth momentum at a time of global economic headwinds.

Strengthening Credit Access and Corporate Financing

A central feature of the package was the relaxation of restrictions under the 2016 "large-exposure" framework, thereby enabling banks to extend larger and more flexible loans to corporates. The RBI simultaneously raised the permissible ceiling for loans against shares from ₹2 million (S\$30,000) to ₹10 million (S\$150,000) per individual and enhanced limits for loans against listed debt securities. Financing limits for participation in initial public offerings (IPOs) were also increased from ₹1 million (S\$15,000) to ₹2.5 million (S\$37,500). A new framework will now allow Indian banks to finance corporate acquisitions, thereby making such acquisitions cheaper.

The merits of these changes lie in the widening of funding avenues available to the corporate sector, especially for mergers, acquisitions and expansion projects. By encouraging banks to participate more actively in corporate finance, the measures are expected to reduce credit constraints, strengthen market intermediation and stimulate capital expenditure, thereby generating multiplier effects across the economy. With reforms strengthening resilience and financial health across Indian banks, they will now be able to look beyond traditional banking themes and expand their scope into lucrative areas previously dominated by non-bank financial companies (NBFCs) and private equity firms.

Facilitating Infrastructure Finance

Recognising the importance of infrastructure for long-term growth, the RBI reduced risk weights on NBFCs lending to operational infrastructure projects. This measure directly lowers the capital requirements of NBFCs, enabling them to extend finance at more competitive terms. Given the centrality of infrastructure – transport, energy and urban systems – to India’s development trajectory, this easing is likely to unlock additional private investment in critical sectors and reinforce the government’s infrastructure push.

Export Support and External Sector Resilience

To support India’s exporters in an uncertain global trading environment, the RBI introduced several relaxations in foreign currency and trade settlement regulations. These included extending the repatriation period for foreign currency accounts from one month to three months and lengthening the permissible period for merchant trade transactions from four months to six months. Easier foreign exchange compliance has been introduced with paperwork and compliance burdens being reduced for small exporters and importers. Entries valued at ₹1 million (\$15,000) or less can now be closed based on a simple declaration

By improving liquidity management for exporters and easing transaction costs, these measures strengthen India’s external sector resilience. They are particularly significant for small and medium exporters who face acute working-capital constraints. In the longer term, smoother trade finance mechanisms will enhance India’s competitiveness in global markets.

Advancing Internationalisation of the Rupee

Another noteworthy element of the package was the advancement of the rupee’s international role. Indian banks will now be permitted to extend rupee-denominated loans to non-residents in neighbouring countries such as Bhutan, Nepal and Sri Lanka. Furthermore, surplus rupee balances in Vostro accounts (a foreign bank holding an Indian rupee account with an Indian bank, that is, a Vostro account for the Indian bank) may be invested in corporate bonds and commercial paper rather than being restricted to government securities. To aid transparency and confidence, the RBI will also provide reference exchange rates for major currencies.

These initiatives deepen cross-border capital mobility, broaden investment avenues for foreign participants and gradually reduce dependence on the United States dollar for regional trade. Over time, they will support the rupee’s credibility as a settlement currency, which is strategically important for India’s global financial positioning.

Stability, Transparency and Confidence

Alongside developmental measures, the RBI projected a higher gross domestic product growth estimate of 6.8 per cent for the financial year 2025-26 and lowered its inflation outlook to 2.6 per cent. By retaining the policy rate while revising macroeconomic

projections favourably, the central bank conveyed confidence in the domestic growth trajectory without compromising monetary prudence.

Equally significant was the RBI's decision to consolidate and rationalise regulatory circulars to promote ease of doing business. Such simplification enhances transparency, reduces compliance burdens and signals a regulatory environment that is supportive of long-term investment.

Implications for Growth and Investment

The cumulative effect of these measures can be understood in three dimensions. First, credit expansion through banks and NBFCs will foster investment in infrastructure and corporate activity, creating employment and productivity gains. Second, market deepening through higher lending against shares and greater foreign participation in corporate paper will improve financial liquidity and attract portfolio investment. Third, the external sector and currency measures will boost export competitiveness and position the rupee as a credible instrument in regional trade.

By addressing both the domestic investment climate and India's integration with global finance, the RBI has signalled a long-term commitment to stability, growth and openness. Such signalling is crucial to attract sustained foreign direct and portfolio investment, especially in a period when global investors are seeking large, dynamic markets with predictable regulatory regimes.

Conclusion

The RBI's 1 October 2025 policy package aligns India's financial system with its development goals. More than short-term credit relief, it enables long-term investment, infrastructure growth and global financial integration. Effective implementation could significantly boost India's growth and enhance its appeal as a top investment destination.

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