RBI eases FPI rules on corporate bonds to boost foreign inflows

Crux:

The Reserve Bank of India (RBI) has relaxed norms for foreign portfolio investors (FPIs) investing in corporate debt securities through the general route, and as such Foreign Portfolio Investors (FPIs) in corporate debt securities will no longer be required to adhere to the short-term investment and concentration limits.

Key Takeaways:

The Reserve Bank of India (RBI) vide its **Notification RBI/2025-26/35 FMRD.FMD.No.01/14.01.006/2025-26 dated May 08, 2025** titled "**Investments by Foreign Portfolio Investors in Corporate Debt Securities through the General Route – Relaxations**" has announced regulatory relaxations for Foreign Portfolio Investors (FPIs) investing in corporate debt securities through the General Route.

As per the updated guidelines, the existing requirements for compliance with the short-term investment limit and the concentration limit, stipulated in paragraphs 4.4(iii) and 4.4(v) of the Master Direction on Non-resident Investment in Debt Instruments (2025), have been withdrawn. These changes are aimed at facilitating greater investment ease for FPIs and take effect immediately.

Accordingly, Authorised Dealer Category-I banks have been directed to inform their clients of the new provisions. The relaxations have been issued under sections 10(4) and 11(1) of the Foreign Exchange Management Act, 1999, and are applicable without affecting any separate approvals required under other laws.

Critique:

The significant highlights of the Notification are that it would prove to be a major step toward liberalising India's debt market, and gives more options to FPIs to park the proceeds from their sale in the equity markets in corporate debt securities at attractive interest rates without having to immediately repatriate the proceeds. At the same time, diversification of Investor base would attract a wider range of global institutional investors, reducing dependence on domestic funding sources. Eased investment norms are likely to increase demand for corporate debt instruments, thereby improving market liquidity, reducing cost of capital for firms, and promoting financial deepening.

However, foreign investors might still hesitate to invest more, since narrowing of US-India 10-Year Yield Spread to around 200 basis points (2%), would mean that the extra return from Indian bonds will be less attractive, and this will reduce the incentive for FPIs to take the additional risk of investing in India.

Link - https://rbidocs.rbi.org.in/rdocs/notification/PDFs/35NT1A4AAAC7E141470486FC6785028754FA.PDF