

RBI's timely move on margin trading

RBI's latest steps will reduce the chance of stress in the stock market spilling into the banking system

By Sumit Saurav, Soumik Bhusan and Sobhesh K Agarwalla

Updated - June 24, 2026 at 06:00 AM.

In Indian equity markets, trading with borrowed money, or margin trading, has become easier than ever before. What was once mainly available to high-net-worth investors is now available to ordinary retail investors as well through discount or full-service brokers. This has led to a sharp rise in margin trading in India. NSE data show that total daily outstanding under margin trading rose sharply after 2020, reaching about ₹1.16 lakh crore by April 2026.

Margin trading has both benefits and risks for the investor. The benefit is, it allows investors to take a larger position than their capital would otherwise permit. If the market moves in their favour, this can increase their profits. But it also increases risk. If the market swings against them, losses also become larger which may wipe out the investors' capital. Investors in such situations also face margin calls, which force them to bring in more money or sell shares at a loss.

The same logic applies to the market as a whole. Margin trading can improve liquidity. By allowing investors to take larger positions, it increases buying and selling in the market. This can make it easier to trade without moving prices too much, lowering trading costs for investors. But it can also make the market more fragile i.e., increase systematic risk. Brokers keep collaterals in form of cash or share pledge for margin trading line given to the investor. When share prices fall, the value of these collateral falls. Brokers then ask investors to add more money or securities. If investors cannot meet these margin calls, brokers sell the shares bought on margin and/or liquidate the pledged shares. These forced sales add selling pressure, which pushes prices down further. That can trigger more margin calls and more forced sales — a self-fulfilling contagion. In this way, excessive margin trading can turn a normal market wide price correction into a sharper market fall.

[Read more](#)