

# Harmonizing a Fragmented Framework: The Reserve Bank of India's 2025 Directions on Lending Against Gold and Silver Collateral

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DOI: <https://doi.org/10.47772/IJRISS.2026.100800954>

Received: 07 September 2026; Accepted: 12 September 2026; Published: 21 September 2026

## ABSTRACT

Lending against gold collateral occupies an unusual position in Indian retail credit. It is large, growing quickly, and until 2025 it was governed by rules that differed by the type of institution making the loan rather than the nature of the exposure. The Reserve Bank of India closed that gap in June 2025 by issuing a single set of directions covering banks, non-banking financial companies and co-operative institutions alike. This paper reviews that reform. It sets out the market's structure and the scale of its recent expansion, traces the regulatory framework that preceded the directions, examines what the 2025 rules actually changed, and reads the reform against the macroprudential literature on loan-to-value limits. The reform is better understood as harmonisation than as tightening. The headline loan-to-value ceiling was in fact raised for small loans, while valuation and conduct requirements were made uniform across lender types. The consultation period also visibly shifted the regulator's position between the April draft and the June text, a sequence the older political economy literature on regulation would recognise. What the reform cannot yet tell us is whether it works. Borrowers may bunch below the new thresholds, and tighter conduct rules may push activity toward the unregulated pawnbroking sector. Still, neither can be observed until the compliance date of 1 April 2026 has passed. The paper sets out that agenda.

**Keywords:** Gold loans; loan-to-value ratio; macroprudential regulation; non-banking financial companies; Reserve Bank of India; financial regulation

## INTRODUCTION

A household that pledges jewellery at a branch counter and walks out with cash thirty minutes later is engaged in a transaction that most of the regulatory literature does not describe. The collateral is portable and liquid, and it also carries meaning that a mortgage does not. The loan is small and often repeated. The borrower is frequently outside the reach of formal credit scoring. Regulation of this market is therefore never purely prudential; it also concerns who retains access to credit and on what terms. The theoretical case for secured lending rests on the lender's ability to seize and sell the pledged asset when the borrower will not pay (Hart and Moore, 1994; Rampini and Viswanathan, 2013). Gold satisfies that condition unusually well, which helps explain why the product reaches borrowers that unsecured credit does not.

For most of the period since gold loans became a distinct regulatory concern, regulators wrote the rules entity by entity. A commercial bank lending against jewellery, a specialised non-banking financial company doing the same, and a co-operative society doing something similar were each governed by separate instructions issued at different times for different reasons. The exposure was identical; the rulebook was not. In June 2025, the Reserve Bank of India replaced that arrangement with a single framework applying to all regulated entities, with a compliance date of 1 April 2026.

This paper reviews the reform. It is a review rather than an empirical study: it presents no new data and makes no causal claim. The purpose is to provide a consolidated account of what the 2025 directions changed, situate that change within what is known about loan-to-value regulation elsewhere, and identify the questions the reform makes answerable but that cannot yet be answered.

The paper proceeds as follows. Section II describes the market and the scale of its recent growth. Section III traces the regulatory framework that preceded the directions and explains why it was fragmented. Section IV sets out the content of the 2025 rules and the sequence in which they were issued. Section V reads the reform against the macroprudential literature. Section VI sets out a research agenda, and Section VII concludes.

## **The Market and Its Recent Expansion**

Three overlapping sets of lenders extend Indian gold loans. Commercial banks lend against jewellery both as a retail product and, historically, as a route to priority sector targets through agricultural gold loans. Specialised non-banking financial companies, led by Muthoot Finance and Manappuram Finance, built branch networks and appraisal capability specifically for this business. Alongside both sits an unorganised sector of pawnbrokers and moneylenders that operates largely outside the regulatory perimeter and for which reliable aggregate figures do not exist.

The organised segment has expanded sharply. Reserve Bank data on sectoral deployment of bank credit show loans against gold jewellery growing at rates without recent precedent in retail lending, and the share of gold loans within personal loans rising from under two per cent in mid-2024 to above seven per cent two years later. Gold prices are part of it. Because the loan is sized against collateral value, rising metal prices mechanically expand the borrowing capacity of an unchanged quantity of jewellery. This is the collateral channel that Kiyotaki and Moore (1997) formalised: when the value of pledgeable assets rises, borrowing capacity rises with it, and the relationship runs in both directions. Gold prices also tend to strengthen when other assets weaken (Baur and Lucey, 2010), so the channel is most expansionary precisely when household incomes are under strain. Substitution accounts for the rest. Unsecured retail lending came under regulatory pressure through higher risk weights, and lenders and borrowers alike moved toward a secured product with a short tenor and a collateral base that can be sold quickly.

That growth is the immediate backdrop to the reform. A product that was material but not systemically prominent became, over roughly two years, a fast-growing share of retail credit held against an asset whose price had itself risen steeply. Both features raise supervisory questions. Rapid growth in any secured product invites scrutiny of underwriting discipline. Growth driven partly by collateral appreciation raises the further question of what happens to loan-to-value ratios, and therefore recovery prospects, if prices reverse.

## **The Framework Before 2025**

The pre-2025 framework was not designed as a framework. It accumulated. Instructions were issued to particular classes of institutions as particular concerns arose, and the resulting body of rules differed across entity types in ways that had more to do with the sequence of past supervisory episodes than with any considered view of the risk.

The clearest instance came in the early 2010s. Specialised gold-loan NBFCs had grown rapidly, funded substantially by bank borrowing, and the Reserve Bank responded with measures directed at that class of lender alone. A working group chaired by K. U. B. Rao examined the sector and reported in 2013. Its recommendations shaped what followed: a loan-to-value ceiling of 60 per cent for NBFCs lending against jewellery, standardisation of how pledged gold was to be valued, and requirements on documentation, interest-rate disclosure and know-your-customer procedure. Valuation was to rest on the average closing price of 22-carat gold over the preceding thirty days rather than on a spot quotation, precisely to prevent lenders from underwriting against a transient price peak.

That episode left two marks on what followed. The measures applied to NBFCs, not to banks doing the same business, creating a gradient across institution types holding identical exposures. The ceiling was then relaxed, and relaxed again during the pandemic for a limited period and a limited class of lender. So the framework was fragmented across entities. It was also unstable over time, with ceilings that moved in response to conditions and representation rather than any stated rule.

By the mid-2020s, the position was that a borrower's terms depended materially on which counter they walked into. That is defensible if the risks genuinely differ by lender type. It is harder to defend when the collateral, the tenor, the borrower profile and the recovery mechanism are substantially the same across the three channels.

### The 2025 Directions

The RBI released draft directions for comment on 9 April 2025. The RBI issued final directions on 6 June 2025 as RBI/2025-26/47. A first amendment, clarificatory in character, followed on 29 September 2025 as RBI/2025-26/84. A separate instruction in July 2025 addressed the voluntary pledge of gold and silver as collateral for agriculture and MSME lending. Compliance with the main directions is required from 1 April 2026.

The single most important structural change is the scope. The directions apply to all regulated entities accepting eligible gold or silver collateral, for consumption or income-generating purposes including farm credit. The entity-wise gradient described in Section III is removed. A co-operative bank and a specialised NBFC now operate under the same valuation rules, assaying obligations, and ceiling schedule.

The second change is the ceiling schedule itself, which replaced a uniform limit with a tiered one. Table I sets it out.

**Table I.** Loan-to-value ceilings under the 2025 directions, consumption loans

| Loan size                             | Maximum LTV |
|---------------------------------------|-------------|
| Up to Rs 2.5 lakh                     | 85 per cent |
| Above Rs 2.5 lakh and up to Rs 5 lakh | 80 per cent |
| Above Rs 5 lakh                       | 75 per cent |

*Notes:* The ceiling must be maintained on an ongoing basis over the loan tenor, not merely at origination—source: Reserve Bank of India (2025b).

This change deserves emphasis because it runs contrary to how the reform is often described. For the smallest loans, which are the bulk of the market by number, the ceiling rose. A borrower pledging jewellery for a loan of two lakh rupees may now borrow against a higher fraction of its assessed value than before. Only above five lakh rupees does the previous uniform ceiling continue to apply. The tiering is progressive in effect: it is most permissive where borrowers are least likely to have alternative access to credit.

Against that loosening sits a set of conduct and valuation requirements that are unambiguously tighter. Valuation must use the lower of the thirty-day average price and the previous day's price, drawn from a recognised market body such as the India Bullion and Jewellers Association. It must exclude the value of stones and mountings. Assaying protocols for purity and weight must be uniform across all branches of a lender, which removes discretion at the counter. The framework specified aggregate collateral limits per borrower: one kilogram of gold ornaments, ten kilograms of silver ornaments, fifty grams of gold coins, and five hundred grams of silver coins.

The inclusion of silver is itself a change of scope rather than of stringency. Lending against silver was not previously the subject of a dedicated framework, and bringing it within the same instrument extends the perimeter rather than tightening the terms on which existing gold lending is done.

Taken together, the package is best characterised as harmonisation with a recalibration of stringency across dimensions. Access, measured by the ceiling, was loosened at the small end. Process, measured by valuation and assaying discipline, was tightened everywhere. The two moves are not in tension: a regulator willing to permit higher leverage against a given quantity of collateral has more, not less, reason to insist that the quantity be measured consistently.

One further feature of the sequence is worth recording. The April draft was widely read as more restrictive than the June text that followed. The consultation period visibly moved the regulator's position, and the direction of that movement was toward the industry's stated concerns, particularly on the treatment of small-ticket lending. Whether that reflects successful representation or the regulator's own reconsideration on the evidence is not something the public record settles.

## **Reading the Reform Against the Literature**

### **A. Loan-to-value limits as a macroprudential instrument**

The international evidence on loan-to-value regulation is substantial but almost entirely about housing. Gatt (2023) surveys the field, and Claessens (2015) places LTV limits within the wider macroprudential toolkit. Cross-country work generally finds these instruments effective at moderating credit growth: Cerutti, Claessens and Laeven (2017) document this across 119 countries, Akinci and Olmstead-Rumsey (2018) reach a similar conclusion, and Kuttner and Shim (2016) find LTV limits among the more reliable non-interest-rate tools for housing markets in a panel of 57 economies. Richter, Schularick and Shim (2019) provide the estimate most often quoted, that a ten-percentage-point tightening of the LTV ceiling reduces output by roughly one per cent over four years, comparable in magnitude to a modest policy rate increase. Their more consequential finding for present purposes is asymmetry: contractionary changes bite harder than expansionary ones of the same size. Loosening does not simply undo tightening.

If that asymmetry carries across to gold collateral, it has an uncomfortable implication for the 2025 sequence. The April draft signalled restriction; the June text delivered partial relief. On the Richter et al. logic, one would not expect the second to offset the first fully, and the net effect over the episode would remain contractionary even though the final ceiling is more permissive than the one it replaced. Whether that holds for a market with this collateral and this borrower base is an empirical question that has not been asked.

Mokas and Giuliadori (2023) show that LTV announcements move household credit and house prices before implementation, meaning anticipation matters and that behaviour changes at the announcement date rather than the compliance date. Tzur-Ilan (2023) and van Bakkum et al. (2024) trace how households adjust when ceilings bind, generally by shifting the composition of what they buy or borrow rather than withdrawing. Braggion, Manconi and Zhu (2023) document the response that most concerns a regulator: borrowers moving toward less regulated lenders when the regulated channel tightens.

### **B. Why gold collateral may not behave like housing**

Several features of this market cut against transferring the housing results wholesale.

Start with the collateral. Jewellery can be sold quickly at a price quoted daily; a repossessed house cannot. The loss-given-default mechanics that make LTV limits consequential in mortgage markets are weaker here.

Tenor matters more, and it is the easiest point to miss. Gold loans run for months, not decades. The 2025 directions require the loan-to-value ratio to be maintained over the life of the loan rather than tested once at origination. That requirement means something quite different on a six-month loan against a volatile asset than on a twenty-year mortgage against a slow-moving one. If the metal price falls far enough, the borrower faces a demand for additional collateral or repayment, which is a margin call in substance, whatever it is called in the loan agreement. Nothing in the housing literature prepares one for that, because house prices do not move quickly

enough for the equivalent constraint to bind within a normal mortgage term. It is also the feature of the reform with the clearest potential to hurt exactly the borrowers the higher ceiling was meant to help.

The borrowers differ too. Housing limits bind on households making a planned and discretionary purchase. Gold loan borrowers are often raising cash at short notice because nothing else is open to them, and the elasticity of demand with respect to a ceiling is unlikely to be the same in the two cases.

Finally, jewellery is held for reasons that have little to do with return, and the decision to pledge it, or to redeem it, answers to more than the interest rate. This is the aspect of the Indian market that the international literature represents least well.

### **C. The regulatory dialectic**

The April-to-June sequence fits a pattern the older political economy literature describes well. Stigler (1971) began the line of argument, treating regulation as something the regulated acquire and shape rather than something done to them. Peltzman (1976) and Kane (1977) developed it into an iterative account in which the regulated respond to proposals and the regulator adjusts, so that observed rules are an equilibrium rather than a unilateral imposition. Kane's dialectic in particular anticipates precisely the sequence seen here: a restrictive proposal, a period of representation, and a final rule that concedes on the points the industry pressed hardest while retaining the regulator's core objective.

The public record does not permit an attribution. The relaxation for small-ticket loans is equally consistent with successful industry representation and with the regulator concluding on reflection that a uniform seventy-five per cent ceiling was poorly calibrated for a segment serving liquidity-constrained households. The observation here is only that the process was consultative in more than one form, and that the final rule differed materially from the draft.

### **A Research Agenda**

The reform creates questions that become answerable only after the compliance date of 1 April 2026. They are not equally interesting.

Bunching is the easiest to test. If the tiered ceiling binds, loan sizes should cluster just below Rs 2.5 lakh and Rs 5 lakh, because a borrower who crosses a threshold faces a discontinuous fall in permitted leverage. The estimators are well established (Kleven, 2016), and the data requirement is loan-level distributions, which lenders already hold. A null result would be just as useful: it would mean the ceilings are not the operative constraint.

Displacement is the question that matters most, and the hardest to answer. Braggion et al. (2023) find borrowers moving to less regulated channels when the regulated one tightens. India has an unorganised pawnbroking sector already positioned to absorb that movement, and the 2025 directions push in both directions at once: the higher ceiling makes the regulated channel more attractive, while uniform assaying and valuation raise its cost and slow it down. Which effect dominates cannot be reasoned out in advance. It has to be measured, and measuring it means finding data on a sector that keeps no returns and answers to no regulator, which is why the question with the clearest welfare content is also the one most likely to go unanswered.

The ongoing ratio requirement raises a narrower but tractable question. What do lenders actually do when the metal price falls? Whether borrowers face top-up demands, early auction, or forbearance is an operational matter with real distributional consequences, and no published work addresses it.

The asymmetry itself could also be tested. Richter et al. (2019) established it for real variables using long panels; announcement data would be cheaper, and a sequence in which a restriction and a relaxation arrive eight weeks apart is well suited to asking how durable a regulatory signal is. One caution applies. Indian regulatory announcements are frequently issued alongside monetary policy decisions, and any design that cannot separate the two will credit regulation with what belongs to the rate decision.

## CONCLUSION

The 2025 directions are more about harmonisation than tightening. Their principal achievement is to make the rulebook depend on exposure rather than on the licence of the institution holding it, removing a gradient that had no evident prudential justification. Within that harmonised frame, the calibration moved in both directions at once: more permissive on leverage for small loans, considerably less permissive on how collateral is valued and assayed.

Whether the reform achieves what it intends is not yet knowable. The compliance date has not passed, the behavioural responses have not been observed, and the international evidence on which one might otherwise lean is drawn from a collateral class that differs from this one in most respects that matter. The reform has created an unusually clean setting for asking the questions. A dated ceiling change, a tiered structure with sharp thresholds, an identifiable compliance date and a large unregulated alternative channel together make gold-collateralised lending in India a more tractable case for macroprudential research than it has been at any point previously.

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