Markets

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BANKS TIGHTENING LENDING LIMITS ON GOLD LOANS

RBI raises concerns over rising gold price volatility

MAHESH NAYAK
Mumbai, December 21

BANKS AND NON-BANKING financial companies (NBFCs) have begun tightening lending limits on gold loans after the Reserve Bank of India (RBI) flagged concerns over rising volatility in gold prices. Sources said the regulator has advised lenders to exercise greater caution in the gold loan segment. Institutions that earlier extended loans at higher loan-to-value (LTV) ratios of 70–72% have now scaled these back to 60–65%, signalling a more conservative approach.

"The regulator is exercising caution and has raised concerns over rising volatility, particularly due to currency fluctuations," said a banker familiar with the matter. He added, "The RBI has urged prudence, pushing banks and NBFCs to slow disbursements and strengthen risk management." The regulator's note of caution stems from borrowers leveraging elevated gold prices to access larger loan amounts. With global uncertainties and currency swings driving sharp movements in bullion prices, the RBI fears aggressive lending against gold could expose lenders to asset quality risks.

"The concern is that if gold prices decline by 10–15%, the outstanding loan value could exceed the value of the pledged jewellery, discouraging borrowers from repaying and leaving banks exposed on collateral." Such a scenario would not only strain household finances but also heighten default risks for banks due to the reduced collateral cushion. Currently, gold prices on the MCX Spot are quoting at ₹1.31 lakh per 10 grams, up 20% over the past three months and 35% in the last six months.

Gold loans have emerged as one of the fastest-growing retail credit segments. The RBI's intervention underscores the need to balance rapid growth with prudent risk management.

For borrowers, the tightening translates into lower loan eligibility against the same quantity of gold. The caution comes at a time when gold loans to jewellery businesses and households have surged, registering a 100% year-on-year increase since March 2025. The value of loans against gold jewellery pledged with banks has hit all-time highs for 18 consecutive months, reaching ₹3.37 lakh crore in October 2025, compared with ₹1.01 lakh crore in April 2024. Since March this year, loans against jewellery have doubled month after month.

Beyond rising gold prices, lenders are also concerned about shifting borrower demographics. Younger customers have driven demand, with those aged 31–40 accounting for nearly 40–45% of gold loans, while participation from the 21–30 age group has doubled since FY21. The average ticket size now stands at approximately ₹80,000–1.5 lakh, according to a senior official at a gold-focused NBFC. A key concern is that a significant portion of this borrowing appears to be directed toward consumption rather than asset creation.

A senior official at a gold-focused NBFC confirmed the tightening of credit, citing growing concerns over excessive borrowing and potential repayment stress. He noted that past experiences with microfinance and personal loan crises have made institutions cautious about repeating systemic vulnerabilities, prompting stricter lending norms.

"Industry associations and lenders have collectively chosen stability over aggressive growth, tightening credit to safeguard against potential shocks," he added.

RISK MANAGEMENT

- Currently, gold prices are at **₹1.31 lakh per 10 gram**
- Gold loans to jewellery businesses and households registered a **100%** Y-o-Y increase since March
- The value of loans against gold jewellery pledged with banks has hit all-time highs for 18 consecutive months
- It stood at **₹3.37 lakh cr** in Oct 2025

It was at **₹1.01 lakh cr** in April 2024

Younger customers have driven demand. The participation from the 21–30 age group has doubled since FY21

Low market volatility puts option traders in a fix

ALEX GABRIEL SIMON & SAVIO SHETTY
December 21

THE INDIAN STOCK markets have become one of the calmest in the world — so tranquil that it is prompting a rethink of strategies among players in the derivatives space.

Despite geopolitical flare-ups and a recent global selloff in risk assets, the Nifty 50 has barely budged for months as domestic money overwhelms foreign flows and derivatives trading curbs choke off volatility. The NSE Volatility Index, a gauge tracking expectations for future swings, ended at an all-time low on last Friday.

Traders powering the world's largest options market by volume are finding it harder to profit from well-known strategies. Volatility is the engine of derivatives trading: When markets swing, investors pay up to hedge, and the cost of contracts rise. When stocks are calm, premiums shrink, eroding returns for option sellers and leaving traditional strategies less profitable.

"The market has become more efficient and competitive — that's meant lower returns for standard vol-selling strategies," said Nitesh Gupta, partner and derivatives trader at Karna Stock Broking. "In this environment, trading desks will have to increase risk to make better returns."

A turning point came last year, when Sebi had launched a sweeping crackdown aimed at curbing speculative retail activity and addressing losses among individual traders. The regulator scrapped several popular weekly options, cutting out the very products that had amplified intraday swings and drying out volume.

The impact is clear: While activity has bounced off from a low in February, notional turnover has averaged almost ₹240 lakh crore, down 35% from 2024. It's the first annual decline since data going back to 2017.

That drop in derivatives activity has fed back into the underlying market: The Nifty 50 has moved less than 1.5% for 151 consecutive sessions, a run that's nearing a record set in 2023, and its three-month realized volatility has slipped towards 8 points — lower than in any major global market.

Meanwhile, market players have also changed. Foreign funds have pulled some $17 billion this year — more than ever before — amid trade tensions with the US and a lack of shares tied to the artificial intelligence boom. At the same time, domestic institutions have become the market's biggest owners, pouring a record surpassing $80 billion since January.

The tranquility hasn't translated into big rewards for equity holders. The Nifty 50 has gained 9.8% this year, compared with the 27% advance in the MSCI Emerging Markets Index and the 20% rise in the MSCI All-Country World Index.

One drag is valuation: The Nifty trades at 20 times projected earnings, above its five-year average and far richer than the 13 times for the broader emerging-markets index, according to data compiled by *Bloomberg*.

For derivatives traders, the new regime is forcing a rethink. Strategies often built around selling options and rolling short-term positions may not yield as much as they used to, according to Bhautik Ambani, CEO, AlphaGrep Investment Management. And the elimination of short-dated contracts leaves fewer ways to express near-term views or capture premiums. **BLOOMBERG**

FORCING A RETHINK

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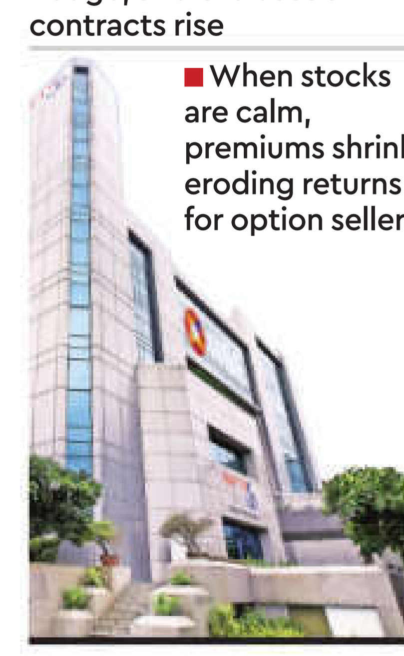
- Nifty 50 has gained **9.8%** this year, against **27%** for MSCI Emerging Markets Index and **20%** in MSCI All-Country World Index
- When markets swing, investors pay up to hedge, and the cost of contracts rise
- When stocks are calm, premiums shrink, eroding returns for option sellers



Lenders see stress building in CV space

KSHIPRA PETKAR
Mumbai, December 21

DESPITE RISING CREDIT demand for vehicle loans after the GST rationalisation, banks and non-bank finance companies (NBFCs) are seeing an uptick in delinquencies.

The commercial vehicle (CV) segment, which is integral to supply chain activity, has emerged as a key area of pressure as volatile utilisation levels, fluctuating freight rates, longer receivable cycles, and higher fuel and maintenance costs have strained cash flows for transport operators.

Analysts believe that the stress reflects broader supply chain inefficiencies and demand volatility, which have translated into higher delinquencies despite stable disbursement trends.

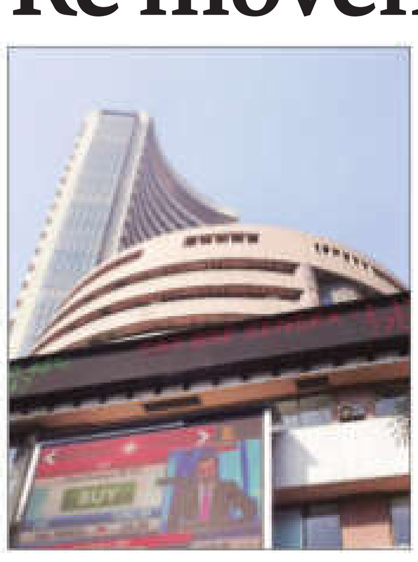
Within vehicle-linked retail lending, auto loans remain resilient, with 90+ days past due (DPD) stable at 0.6% and no year-on-year deterioration. In contrast, two-wheeler loans have seen rising stress, with 90+ DPD increasing 22 bps year-on-year to 2.2% by September, data from TransUnion CIBIL showed.

"We do see some stress when we look at two-wheeler loans and the commercial vehicle segment, but we want to see how the festive season growth has helped in terms of overall portfolio dynamics. We are closely monitoring this segment," Bhavesh Jain, MD and CEO, TransUnion CIBIL, said.

AM Karthik, senior vice president and co-group head, financial sector ratings, ICRA, said they are seeing a measured approach by banks in disbursing commercial vehicle loans. For NBFCs, 90+ DPD has gone up by 30-40 bps during the first half of this fiscal for most of the players, indicating rising stress in this segment, he added.

Analysts said while the credit growth is robust, sustaining the asset quality would require disciplined underwriting and cautious expansion.

Re movement, macro data to drive mkts



PRESS TRUST OF INDIA
New Delhi, December 21

THE STOCK MARKETS are likely to trade in a range-bound manner in the holiday-shortened week where trading activity of foreign investors, currency movement and global macroeconomic data announcements are expected to drive sentiments, analysts said.

Several global markets may see subdued activity on account of Christmas and New Year holidays, an expert said.

The domestic stock market would be closed on Thursday for Christmas.

"This week marks the onset of the year-end festive period and will be holiday-shortened due to the Christmas break, which may keep trading volumes subdued," Ajit Mishra — SVP, research, Religare Broking, said.

"On the domestic front, markets will track infrastructure output data, along with updates on bank loan growth, deposit growth, and foreign exchange reserves. Currency movement and crude oil prices will also remain important variables," Mishra said.

"Globally, performance of major markets — particularly the US — will be closely monitored for directional cues," he added.

QUICK PICKS

SMC Bill may end regulatory overhang

THE SECURITIES MARKETS Code Bill draws a clear line on Sebi's enforcement reach by imposing an eight-year statutory limit on inspections, a move aimed at preventing regulatory overhang on participants. **PTI**

Infy, TCS biggest m-cap gainers

THE COMBINED MARKET valuation of six of the top-10 most-valued firms climbed ₹75,256.97 crore last week, with TCS and Infosys emerging as the biggest winners. The Sensex declined 338.3 points. **PTI**

Shyam Dhani SME IPO opens today

SHYAM DHANI INDUSTRIES, an manufacturer of spices, on Sunday said it has raised ₹10.9 crore from anchor investors ahead of its initial share sale, which will open for subscription on December 22. **PTI**

Explainer

MGNREGA OVERHAUL

Rethinking India's rural employment

As a new law takes the place of the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA), concerns have been raised about a possible erosion of rights-based work while signalling a shift to more explicitly budgeted allocations, explain ***Saumitra Bhaduri*** and ***KR Shanmugam***

New law in place of MGNREGA

PARLIAMENT HAS PASSED a new law, which will replace the MGNREGA. The Viksit Bharat - Guarantee for Rozgar and Ajeevika Mission (Gramin) (VB - G RAM G) Bill, 2025. The Bill has removed the name "Mahatma Gandhi" and aligned the programme with the "Viksit Bharat @2047" vision. It proposes to raise the employment guarantee from 100 to 125 days per household per year and reorienting work towards infrastructure creation and climate-resilient assets. It signals a shift to more explicitly budgeted annual allocations, potentially departing from MGNREGA's traditional demand-driven financing model. In contrast to MGNREGA, under which the Centre covered all unskilled wage costs and most material expenses, the G RAM G Bill converts the programme into a centrally-sponsored scheme (CSS), and introduces cost-sharing of 90:10 for Northeastern and Himalayan states, 60:40 for others, and full central funding for Union Territories without legislatures. A notable feature is the agricultural work moratorium, which allows states to pause the scheme for up to 60 days during peak farm seasons, helping shift labour to agriculture, ease shortages, and contain wage pressures during sowing/harvest.

Shortcomings in G RAM G and what is at stake

THE CENTRAL CONCERN is the possible erosion of MGNREGA's rights-based character; budgetary limits could reduce a legal right to a rationed service. As a CSS, the new mission may require states to bear 40-50% of costs, which will increase their fiscal burden, potentially crowd out other essential public spending, and exacerbate inter-state fiscal disparities. By prioritising works like water management, soil conservation, and rural connectivity, the framework could improve the durability, quality, and long-term productivity of assets, increasing rural resilience to climate shocks. MGNREGA is a significant innovation in social policy. The reforms offer an opportunity to improve it. A phased, integrated approach is essential: MGNREGA must remain a constitutional right, while G RAM G serves as a pathway to skilled and sustainable livelihoods. It requires assured central funding, requisite fiscal space for states, and a consultative Centre-state framework aligned with development goals.

125 days

NEW LAW PROPOSES TO INCREASE JOB GUARANTEE FROM 100 DAYS PER HOUSEHOLD ANNUALLY

AS A CENTRALLY-SPONSORED SCHEME, THE NEW MISSION MAY REQUIRE STATES TO BEAR 40-50% OF COSTS

₹86,000 cr

FY26 ALLOCATION TO MGNREGA, ONE OF THE HIGHEST OUTSIDE COVID YRS

Scale and success of MGNREGA

ACCORDING TO GOVERNMENT data, in 2024-25, the MGNREGA generated 291 crore person-days of employment, with women accounting for 58-59%, the highest share in over a decade. More than 15 crore job cards have been issued since inception, though average employment per household remains below 50 days nationally. The FY26 Budget allocated around ₹86,000 crore to MGNREGA, among the highest outside the pandemic years, reflecting sustained rural demand and its role as a key income stabiliser. The scheme has also produced over eight crore rural assets-60% of it in water conservation, drought proofing, and land development. In water-scarce areas, research has shown that MGNREGA has increased the recharge rate of groundwater and crop intensity. It has also introduced the culture of government transactions being transparent. MGNREGA has proven particularly valuable as a counter-cyclical and crisis-response instrument. Central expenditure rose sharply from about ₹11,300 crore in 2006-07 to over ₹1.1 lakh crore in the pandemic year of 2020-21.

Challenges and structural issues

MGNREGA HAS BEEN grappling with operational challenges. Delayed wages have been the most concerning issue, with state data revealing that in some years, the 15-day deadline for making payments had been violated by 30-40% on average. Administrative efficiency has been very uneven, with disparities in states linked to the quality of planning, technical management, and assets. Performance varies sharply: while states like Chhattisgarh have achieved close to 100% coverage of households receiving 100 days of work, states like Bihar have recorded as low as 0.17%, reflecting administrative capacity constraints and uneven political commitment. Fund availability remains inconsistent, with rising pending liabilities exceeding annual allocations. Although corruption has declined over the years, aided by digitisation and social audits, problems such as inflated muster rolls, delayed work measurement, and incomplete assets persist in certain regions. Wage rates, often below prevailing state minimum wages, also remain a concern. However, these failures reflect poor governance and capacity constraints rather than flaws in the core idea of work guarantee.

JAM solution and digitalisation

THE JAM (JAN Dhan, Aadhaar, mobile) trinity brought about an institutional shift. At present, more than 95% Aadhaar-linked job cards are in possession of active workers, and disbursements are made mostly through Direct Benefit Transfer schemes, a facility enabled through the Aadhar Payment Bridge System. It diminished some leakages, improved audit trails, and brought financial inclusion, especially for women. However, digitalisation has also introduced new challenges. Failures in Aadhaar authentication, bank mapping, or technological problems have caused people to be denied payments.

The writers are respectively professor and former director, Madras School of Economics