



Economic Measures Taken by RBI

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Why in News

Recently, the **Reserve Bank of India (RBI)** has taken various economic measures, which include **revising Priority Sector Lending (PSL) norms, increasing Loan to Value ratio (LTV) on gold loans and introducing online dispute resolution mechanism for digital payments.**

The PSL guidelines were last reviewed by the RBI in April 2015.

Key Points

- **Revised PSL Norms:**
 - Provides PSL status to start-ups.
 - Increases the borrowing limits for the renewable energy sectors- solar power and compressed biogas plants.
 - Increased the targets for lending to 'Small and Marginal Farmers' and 'Weaker Sections'.
 - Put in place the incentive framework for banks in order to address the regional disparities in the flow of priority sector credit.
- **Reasons for New PSL Norms:**
 - With a view to aligning the guidelines with emerging national priorities and bring sharper focus on inclusive development.
 - It has been done with the aim to encourage and support environment-friendly lending policies to achieve **Sustainable Development Goals (SDGs).**

Priority Sector Lending

- The RBI mandates banks to lend a certain portion of their funds to specified sectors, like agriculture, Micro, Small and Medium Enterprises (MSMEs), export credit, education, housing, social infrastructure, renewable energy among others.
- All **scheduled commercial banks** and **foreign banks** (with a sizable presence in India) are mandated to set aside 40% of their **Adjusted Net Bank Credit (ANDC)** for lending to these sectors.
- The idea behind this is to ensure that adequate institutional credit reaches some of the vulnerable sectors of the economy, which otherwise may not be attractive for banks from the profitability point of view.

- **Loan to Value Ratio Increased:**

- Currently, loans sanctioned by banks **against pledge of gold** ornaments and jewellery for non-agricultural purposes should not exceed 75% of the value of gold ornaments and jewellery.
- However, with a view to mitigating the impact of **Covid-19** on households, RBI has decided to **increase the permissible LTV for such loans to 90%**.
- This relaxation will be available until 31st March 2021.
- Increase in LTV ratio will make banks and **Non-Banking Financial Companies (NBFCs)** more competitive as compared to money lenders.

However it also increases the risk of gold financing players as the gold is floating at record high level. Any fall in gold prices will increase defaults.

- **Offline Retail Payments Scheme:**

- RBI has unveiled a scheme of offline retail payments using cards and mobile devices to foster financial inclusion.
- There has been a considerable growth in digital payments using mobile phones, cards and wallets. However **lack of Internet connectivity or slow Internet**, especially **in remote areas, is a major impediment** in the adoption of digital payments.

- **Online Dispute Resolution:**

RBI has also Introduced an **Online Dispute Resolution (ODR) mechanism** for digital payments as the number of digital transactions are rising significantly giving rise to more disputes.

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