



MSME credit growth back at pre-note ban levels: RBI study

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Highlights

- The flow of bank credit to micro, small and medium enterprises (MSMEs) that took a hit in the aftermath of demonetisation seems to have picked up again, a study by officials at the Reserve Bank of India (RBI) showed.
- Growth of bank credit to the MSME sector, which had started decelerating even before demonetisation and fell significantly and turned negative in the wake of the note ban, has rebounded - RBI's Monetary Policy Department wrote.
- Data shows that during the April-June quarter, bank credit to MSMEs increased on average by 8.5% year-on-year, mirroring the level of growth during April-June 2015. Credit to micro and small enterprises grew at an even healthier rate.
- "MSME credit and especially micro credit to MSMEs, including loans by banks and NBFCs, shows a healthy rate of growth in recent quarters,"

Issues

- "MSME exports were affected more adversely by issues relating to GST implementation... due to delay in refund of upfront GST and input tax credit affecting cash-driven working capital requirements".
- The MSME sector comprises more than 63 million units and employs about 111 million people. The share of MSMEs in GDP is about 30%, with the sector accounting for about 45% of manufacturing output and about 40% of India's total exports.
- "The sector faces operational problems due to its size and nature of business, and is, therefore, relatively more susceptible to various shocks to the economy. MSMEs largely operate in the informal sector and comprise a large number of micro enterprises and daily wage earners,"

while GST implementation does not seem to have had any significant impact on credit, it adversely impacted MSME exports.

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