

GOVERNMENT OF INDIA
MINISTRY OF MICRO, SMALL AND MEDIUM ENTERPRISES

RAJYA SABHA
UNSTARRED QUESTION NO. 113
TO BE ANSWERED ON: 03.02.2025

IMPACT OF GST AND DEMONETISATION ON MSMEs

113. DR. V. SIVADASAN:

Will the Minister of MICRO, SMALL AND MEDIUM ENTERPRISES be pleased to state:

- (a) whether there has been any studies by Reserve Bank of India (RBI) which has pointed out that GST and demonetization have adversely affected Micro, Small and Medium Enterprises (MSMEs);
- (b) the measures taken by Government to help the MSMEs adversely affected by GST and demonetization; and
- (c) the contribution of MSMEs to GDP during the last five years, the details thereof, year-wise?

ANSWER

MINISTER OF STATE FOR MICRO, SMALL AND MEDIUM ENTERPRISES
(SUSHRI SHOBHA KARANDLAJE)

(a) and (b): As informed by Reserve Bank of India (RBI) no such study has been conducted. The RBI has taken the following measures in the recent past to provide assistance to MSMEs is as under:

- i. RBI vide circular dated 21.11.2016, along with circular dated 28.12.2016, permitted regulated entities an additional period of 90 days beyond the applicable period for classification of a loan account as non-performing asset, in respect of small borrowers subject to certain terms and conditions.
- ii. RBI vide its circular dated 07.02.2018 on Relief for MSME Borrowers registered under Goods and Services Tax (GST) provided that the exposure of banks and NBFCs to a borrower classified as micro, small and medium enterprise under the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006, shall continue to be classified as a standard asset as per a 180-day past due criterion, subject to certain conditions, including a cap of Rs.25 crore on the aggregate exposure. On a review, the benefits were subsequently extended to all MSMEs with aggregate credit facilities up to the above limit, including those which are yet to register under GST. These guidelines were issued to accommodate difficulties faced on account of formalization of business through registration under GST of the smaller entities during the transition phase and related difficulties in meeting their repayment obligations to banks and NBFCs.

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- iii. Further, with a view to facilitate meaningful restructuring of stressed MSME accounts, a one-time restructuring of loans to MSMEs that were in default but 'standard' as on 01.01. 2019, was permitted, without asset classification downgrade, vide circular dated 01.01.2019, subject to certain conditions. The scheme was extended vide circular dated 11.02.2020 for stressed MSMEs whose loans were 'standard' as on 01.01. 2020 subject to certain conditions.
- iv. Regulatory Retail Portfolio – Revised Limit for Risk Weight: The exposures included in the regulatory retail portfolio of banks were earlier assigned a risk weight of 75 percent, with a prescribed maximum aggregated retail exposure of Rs. 5 crore to one counter party. In order to reduce the cost of credit to this segment consisting of individuals and small businesses (i.e., with turnover of upto Rs. 50 crore), the threshold of ₹5 crore was increased to Rs. 7.5 crore, vide circular dated October 12, 2020, in respect of all fresh as well as existing exposures. The risk weight of 75 percent will apply to all fresh exposures and also to existing exposures where incremental exposure may be taken by the banks upto the revised limit of Rs. 7.5 crore. The instruction is applicable to all scheduled commercial banks (SCBs), including small finance banks (SFBs) and excluding local area banks (LABs) and regional rural banks (RRBs).

(c): As per the latest information received from the Ministry of Statistics & Programme Implementation, the share of MSME in Gross Value Added (GVA) during last five years is as given below:

| Year | 2018-19 | 2019-20 | 2020-21 | 2021-22 | 2022-23 |
|---------------------------------|---------|---------|---------|---------|---------|
| Contribution of MSME in GDP (%) | 30.5 | 30.5 | 27.3 | 29.6 | 30.1 |
