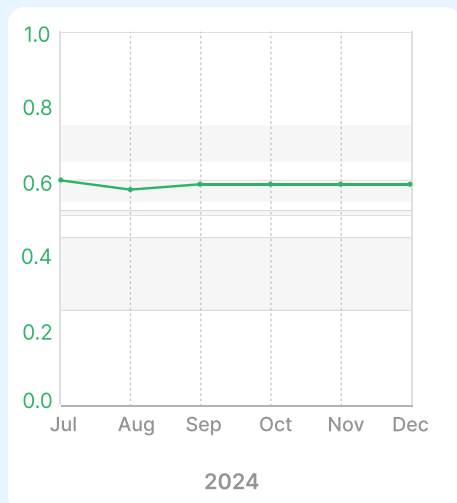


MSMEs Stay the Course



Insights from India's First MSME Economic Activity Index



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Dec'24 Jocata Sumpoorn 0.58

Jocata Sumpoorn came in at 0.58 in December, at the same level as the previous month, indicating that the sales activity of credit-seeking MSMEs stays in the phase of mild expansion.

Will the budgetary proposals boost MSMEs in 2025?

Sumpoorn has shown that sales activity of MSMEs has been in the phase of mild expansion since December 2023, in sync with the first advance estimates of national income showing a slowdown in growth in FY25 to 6.4 percent compared to 8.2 percent in FY24. Manufacturing has slowed growth from 9.9 percent in FY24 to 5.3 percent in FY25 - and addressing the growth challenge has set the tone for the Budget 2025-26.

While the Budget announced on 1st February has several measures that have the potential to boost growth and push the sales of small businesses on an upward trajectory this year, the Finance Minister's speech saved the biggest announcement for the last - the direct tax changes that include revised income tax slabs and rates and a rebate for salaried, are estimated to release ₹1 lakh crore for households to use. This has the potential of spurring demand, particularly urban demand which has been a concern so far, making a positive push for sales of small businesses. However, in order to maintain fiscal discipline, there has been a tight rein on the capex front- the government has allocated ₹11.21 lakh crore, an increase of 0.9 percent over F25. What was left unsaid in the Budget Speech was that capital expenditure fell short this year - estimated at ₹10.18 lakh crore in FY25, as against the budgeted ₹11.11 lakh crore. The government is moving towards instigating private investment as a demand driver in the year ahead.

The Budget Speech set MSMEs as the second engine of growth in India, with several specific measures to support the sector. To begin with, the revision in the investment and turnover limits for classification of all MSMEs by 2.5 and 2 times respectively will enable more firms to register and benefit from access to credit as well as various government support schemes. However, this move may have an unintended consequence of squeezing credit to the smallest entities in the micro segment, as banks get a larger pool of firms under the PSL category, and a separate category for nano-enterprises may help mitigate this risk. The micro-segment in the Sumpoorn index shows slower growth in the last four months, which could be a consequence of slower growth of bank credit to the micro and small sectors. Bank credit to the micro and small segment has slowed to 8.7 percent YoY for the period end-March to end-December 2024, compared to 16.5 percent the previous year. Meanwhile, bank credit for the medium firms has raised pace from 10.9 percent YoY to 17.3 percent YoY for the same period. The Budget seeks to address the credit need with measures such as enhanced credit guarantee cover, credit cards for micro-enterprises, sector-specific schemes for footwear and leather, toys and food processing and a credit scheme for first time women, Scheduled Castes, and Scheduled Tribes entrepreneurs.

External headwinds

For MSMEs, the last year has been a good one on the exports front. Cumulative exports of merchandise and services grew by 6.03 percent in the period April-December 2024 over the previous year. In December 2024, non-petroleum exports stood at USD 33.09 billion, up from the USD 31.50 billion in December 2023. The main sectors with high growth were electronic goods (up 35.11 percent), engineering goods (up 8.35 percent), rice (up 64.03 percent) readymade garments (up 12.89 percent), and cotton and handlooms (up 11.98 percent). All these sectors have a strong MSME presence. Going ahead, however, the global uncertainty in tariffs raised by the new Trump administration in the US is creating concern. There are also macroeconomic financial repercussions on our trade deficit and exchange rate which can impact exports negatively. The Economic Survey has recommended diversifying markets in the short term and looking to raise market share in the long term as effective strategies to combat the global policy changes. As exports are the fourth engine of growth in the Budget, there are measures proposed for instance, setting up an Export Promotion Mission, jointly by the Ministries of Commerce, MSME, and Finance, which will facilitate easy access to export credit, cross-border factoring support, and help small businesses manage the non-tariff measures in overseas markets.

Enabling environment for growth

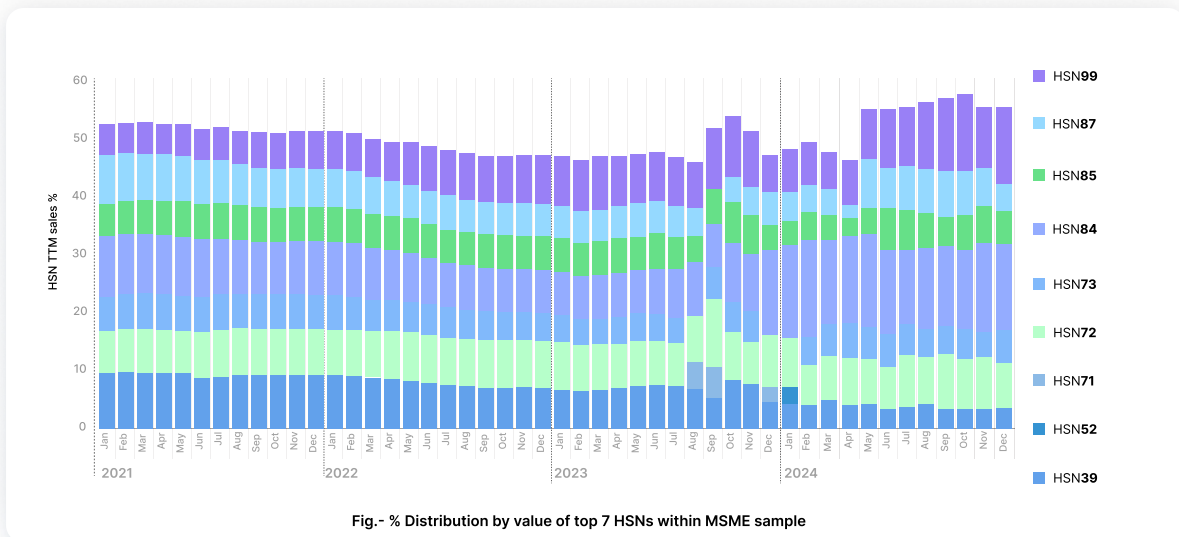
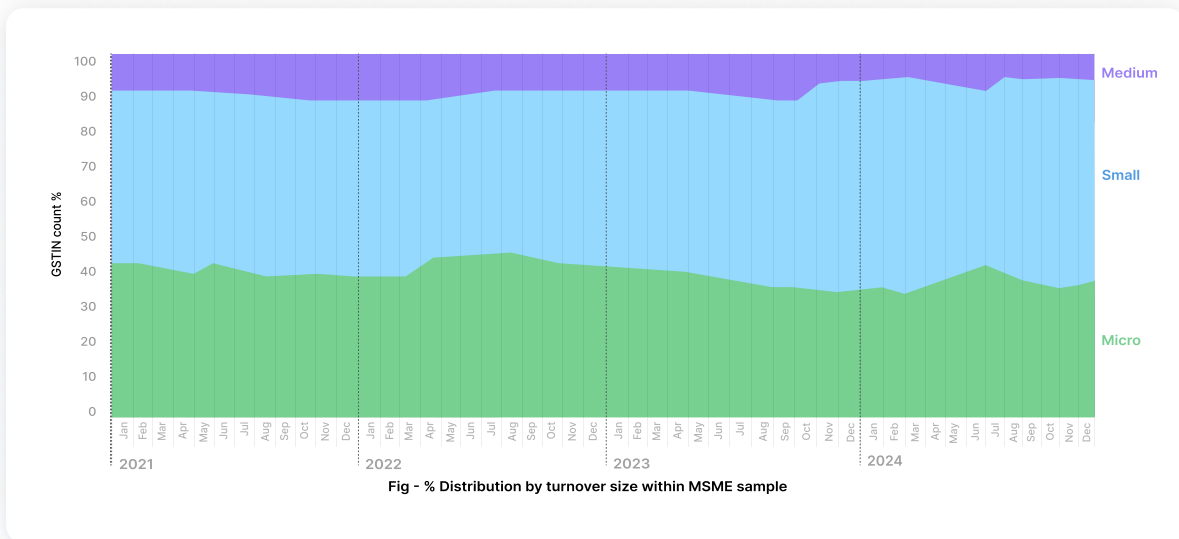
One of the main thrusts of the government is for regulatory reforms towards ease of doing business - a High Level Committee will review all non-financial regulations and compliances, with recommendations within the year - the aim is to build trust-based economic governance. Amongst other measures is the proposed Jan Vishwas Bill 2.0 to decriminalise more than a hundred provisions in various laws. This follows the strong push in the Economic Survey for the government to "get out of the way' and trust people, we must, for we have no other choice." This is the atmosphere that the government has to create to foster growth, especially for small businesses, who shoulder the burden of disproportionate compliance. However, the critical key for growth lies with state and local governments who need to take up this mission as well to create an overall enabling environment. Such reform will take time to evolve, and its impact will only be felt in the years to come.

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What is Jocata Sumpoorn in association with SIDBI?

Jocata Sumpoorn in association with SIDBI is an MSME-specific high frequency indicator built using consent-led and anonymised sales data of 1 lakh+ MSMEs seeking credit from financial institutions.

The sample is well-distributed across geography, turnover size and sectors.



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