

Government can consider interest subvention for All MSME loans

Government of India (GoI) introduced the 'Interest Subvention Scheme for Incremental credit to MSMEs 2018', in November 2018, which offered 2 per cent interest subvention to all GST registered MSMEs on fresh or incremental loans, and was in effect till March 31, 2020. For a wide coverage, working capital or term loans to the extent of Rs One crore were eligible during the period of the scheme.

In December 2019, the requirements of Udyog Aadhar Number and registration with GSTN were dispensed with submission of Income Tax Permanent Account Number (PAN) or categorisation of the loan account as MSME by the concerned bank, thus aiding more MSMEs to participate in the scheme.

In view of the challenges faced by MSMEs due to the COVID-19 crisis, in May 2020, as part of the GoI's stimulus package, the Finance Minister announced that Covid-hit small businesses will get 2 per cent interest subvention on loans up to Rs 50,000 secured under the Mudra scheme's Shishu cover. The FM suggested that the interest subvention scheme will be worth a total of Rs 1,500 crore and is likely to benefit about three crore people.

However, given the extent of the current crisis, the 2 percent interest subvention should be extended to all MSMEs on the outstanding portion of their existing loans. This will reduce the interest burden on MSMEs, whose cash flow has been severely affected by the loss of business during the lockdown period. MSMEs have to meet their regular expenditure such as wages, rent and electricity charges despite losing revenue during this period. In FY19, outstanding MSME loans by banks amounted to Rs. 15 lakh crore. A 2% interest subvention would mean additional government expenditure of Rs. 30,000 crore. Given that the size of the Indian economy is around Rs. 200 lakh crore, extending Rs. 30,000 crore worth relief to MSMEs will increase government's fiscal deficit by 0.15%, which is not a considerable proportion.

While the RBI has proactively reduced the repo rate and banks are following suit in their lending rates, the reduced interest rates will be applicable to fresh and incremental loans. Even the moratorium on outstanding loan repayments will continue bearing interest. It is, therefore, believed that once the moratorium period ends, many MSME loans will slip into NPA category.

Although the government is supporting the MSME sector through offering credit guarantee and collateral-free loans, MSMEs need handholding in the form of wage subsidies, interest subvention and rationalisation of tax rates in order to deal with survival issues as a result of this unprecedented crisis.

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