

MSME sector can benefit from demand stimulus

The MSME sector accounts for about 45 per cent of India's manufacturing output and around 30 per cent of the country's GDP. With India's GDP shrinking by about 24 per cent in Q1 FY21 and 7.5 per cent in Q2 FY21, the MSE and informal sectors have been worst hit.

The government has offered various sops to handhold MSMEs under the Atmanirbhar Bharat packages in this time of crisis. As part of the package, the government had in May 2020 announced that MSME dues from central government agencies and Central Public Sector Enterprises (CPSEs) should be paid in 45 days. As a result, over Rs 21000 crore of MSME dues have been paid since May 2020 and procurement has also gone up.

However, MSMEs need more demand for their products. Credit outstanding of MSMEs declined by 5.3 per cent between April-October 2020, as reported by RBI. Further, there has been some slowdown in loans sanctioned to struggling businesses and MSMEs under the Emergency Credit Line Guarantee Scheme (ECLGS) over the months of October and November 2020.

While the spread of COVID-19 is uncertain in the near future, it is likely to add to the woes of the MSE sector, with many of these enterprises going out of business. There is, therefore, a need for increased public spending which will create a demand for the ancillary products and services offered by the MSME sector.

As the economy sets into motion, even the informal sector will generate demand owing to higher incomes. While the reform measures announced by the government will benefit the industry in the longer run, there is a need for stimulating demand, which can come from the government, as well as the private sector through tax sops that will leave higher disposable incomes in the hands of the people.

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