

**GOVERNMENT OF INDIA
MICRO, SMALL AND MEDIUM ENTERPRISES
LOK SABHA**

UNSTARRED QUESTION NO:3763

ANSWERED ON:25.08.2011

LOAN TO MSME

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

(a) whether the Government has recently analysed the reasons for frequent hike of interest by financial institutions and sluggish flow of credit to Micro, Small and Medium Enterprises (MSMEs);

(b) if so, the outcome thereof; and

(c) the corrective steps taken by the Government to ensure these industries get adequate credit at a lower rate of interest?

Answer

MINISTER OF THE STATE IN THE MINISTRY OF MICRO, SMALL AND MEDIUM ENTERPRISES (SHRI VIRBHADRA SINGH)

(a) & (b) :Since mid-March 2010, the Reserve Bank of India (RBI) has raised the repo rate eleven times by a cumulative of 325 basis points as inflation during most part of 2010-11 and the first quarter of 2011-12 had remained persistently above the comfort level of the RBI. Inflationary pressures have persisted due to a multitude of reasons.

As per information furnished by RBI, flow of credit to micro, small and medium enterprises (MSMEs) has increased and loans outstanding against MSMEs from public sector banks has gone up from Rs.3,75,412 crore in March, 2010 to Rs.4,85,771 crore in March, 2011 (provisional).(Source: RBI)

(c): Interest rates have been deregulated by RBI and Base Rate system has been introduced with effect from July 1, 2010 replacing the earlier Benchmark Prime Lending Rate (BPLR) system with a view to enhancing transparency in lending rates of banks.

In terms of the recommendations of the Task Force on MSMEs under the chairmanship of the Principal Secretary to the Prime Minister, the RBI has advised the banks in June 2010 to achieve a 20 per cent year-on-year growth in credit to micro and small enterprises (MSEs) and a 10 per cent annual growth in the number of micro enterprise accounts. Further, banks have been advised to allocate 60 per cent of the MSE advances to the micro enterprises, to be achieved in stages viz., 50 per cent in the year 2010-11, 55 per cent in the year 2011-12 and 60 per cent in the year 2012-13. The Government is implementing schemes like Credit Guarantee Scheme and Performance and Credit Rating Scheme to facilitate credit flow to the MSEs.