Rising borrowing costs threaten economic recovery

While recessionary winds are looming large on the global economy, given the growing geopolitical tensions, supply chain disruptions and rising inflation, MSMEs already hit hard by the Covid-19 crisis are unable to pass on their rising costs, anticipating low demand for their products and services. While rising inflation is prompting the RBI to tighten its monetary policy, it will increase the borrowing costs of trade and industry.

In order to address rising raw material prices and cost of borrowing, MSMEs need to devise ways to hedge inflation risk, implement effective cost management strategies, improve operational efficiencies and optimize supply chain management. At the same time, the government needs to handhold this industry by rationalizing GST rates. This will help businesses recoup their financial losses and protect their bottomline.

Further, the share of manufacturing sector in bank credit is declining owing to banks' shift towards lending to personal loans, infrastructure, weaker sections of the society and services sectors in the past few years. Sectors such as base metals, textiles, chemicals, food processing, engineering, automobiles, gems & jewellery are witnessing decline in their share in total bank credit.

There is, therefore, a need to channelize bank lending at affordable rates to MSMEs in labour-intensive sectors such as textiles, leather, footwear, agro-processing, gems and jewellery, furniture, toys etc. to help them mitigate survival issues, compete with large-scale manufacturing units with huge economies of scale and prevent jobless growth. Policymakers should take cognizance of the same.

Notifications

PIB

Government launches Indian Business Portal

https://www.pib.gov.in/PressReleasePage.aspx?PRID=1828831

Import of Paper brought under Compulsory Registration

https://www.pib.gov.in/PressReleasePage.aspx?PRID=1828551

New Guidelines for MSE-CDP approved

https://www.pib.gov.in/PressReleasePage.aspx?PRID=1828753