Syllabus subtopic: Indian Economy and issues relating to planning, mobilization of resources, growth, development and employment.

News: Small borrowers, whose default rates have traditionally been among the lowest in India, are increasingly missing loan repayments as rising unemployment and stagnant-to-declining wages put pressure on finances of small companies as well as households.

Prelims and Mains focus: About MUDRA scheme, current economic downturn and its impact on the SMEs and overall economy of India, IIP

Issue:

- Indian banks, which hold the dubious distinction of having the world’s worst bad loan ratio, have so far seen most of its asset-quality troubles originate in the corporate sector. With the economy slowing down sharply, smaller borrowers are also finding it difficult to repay loans.
- According to data from credit bureau Cibil, bad loan rates in micro enterprises and small and medium-sized enterprises were at 8.7% and 10.6%, respectively in June this year.
- One of the categories of borrowers that have been the worst hit are those that have availed small loans under the government’s MUDRA scheme designed to encourage micro-entrepreneurship. So much so, the central bank Tuesday asked bankers to monitor defaults in Mudra loans closely.
- The Reserve Bank of India deputy governor M.K.Jain said banks need to focus on repayment capacity of borrowers at the appraisal stage and monitor the loans through their lifecycle much more closely.

Reasons for the rising defaults

- Experts said the slowdown in economic growth is hampering the loan-servicing capability of small businesses.
- For small retail borrowers, slackening growth in rural income has been a pain point.
- Whenever there is an economic downturn, one can expect small businesses to be affected the most, since their activities are linked to other larger companies. When the index of industrial production (IIP) has grown at a negative rate in September, it actually means that the overall performance of these businesses have been affected along with their ability to service loans.

About Pradhan Mantri Mudra Yojana (PMMY)

- Under the Pradhan Mantri Mudra Yojana launched in April 2015 banks provide loans up to ₹10 lakh to non-corporate, non-farm small/micro enterprises.
- There are three categories of Mudra loans, depending on size.
  - loans up to ₹50,000 are termed Shishu,
loans of ₹50,000-5 lakh are called **Kishore**
loans of ₹5-10 lakh are called **Tarun**,  

- Data from Mudra’s annual report showed that non-performing assets (NPA) ratio or **bad loans as a percentage of total loans** were at 5.38% as on 31 March 2018. The FY19 annual report is not available.

**Challenges ahead**

- With **banks hesitating to lend** to them incrementally if there are even marginal cash flow issues, the defaults in SME could materially increase even from 10-11% seen currently for public sector banks (PSBs).
- Systemic risks arising from unsustainable credit growth, increased inter-connectedness and financial risk manifested by lower profitability of the small businesses.
- Small businesses, contributing to 29% of the gross domestic product (GDP), are not isolated from the slowdown. The latest in a series of bad news came in earlier last month as India’s factory output shrank for the second straight month at 4.3% in September.
- In the June quarter, India reported its weakest growth in more than six years at 5%. The latest GDP estimates by banks indicate that the economy may slow down further.

**Index of Industrial Production (IIP)**

- It is an index which helps us understand the growth of various sectors in the Indian economy such as mining, electricity and manufacturing.

- IIP is a short term indicator of industrial growth till the results from Annual Survey of Industries (ASI) and National Accounts Statistics (Eg: GDP) are available.

- The base year of the index is given a value of 100. **The current base year for the IIP series in India is 2011-12.** So, if the current IIP reads 180, it means that there has been 80% industrial growth compared to the base year, ie 2011-12.

**Who releases IIP?**

- Index of Industrial Production (IIP) is released by the Central Statistics Office (CSO) of the Ministry of Statistics and Programme Implementation.
- IIP is published monthly, six weeks after the reference month ends.