

How GST ensured fast credit growth to MSMEs

The Finance Ministry has expressed confidence that India's economy is poised to become the world's third largest within the next three years, with a projected GDP of USD 5 trillion, up from the current USD 3.7 trillion¹. India's consistent outperformance against market expectations has firmly established it as one of the fastest-growing economies globally. The banking sector is integral to maintaining the country's stability, which is pivotal for economic growth. However, recent years have witnessed a significant decline in year-on-year (y-o-y) credit growth in India, largely attributed to the economic impact of the pandemic. Despite strong credit demand, deposit growth has not kept pace with loans, leading to a notable increase in the overall loans-to-deposits ratio.

In January 2024², credit to the industry expanded by 7.8% y-o-y, down from the 8.7% growth recorded in January 2023. Similarly, non-food bank credit grew by 16.2% y-o-y in January 2024, compared to 16.7% in the previous year.

On the other hand, credit to Micro, Small, and Medium Enterprises (MSMEs) experienced a notable surge, with a y-o-y growth of 20%³, indicating improved lender confidence and increased credit availability to this sector.

GST has significantly driven two key outcomes: an increase in MSME registrations and a positive rise in credit extended to MSMEs. The number of new MSME registrations has surged from 0.5 million⁴ in the fiscal year 2017-18 to an impressive 15 million⁵ in the fiscal year 2023-24 (Year-to-Date as of December 2024). While GST was introduced to streamline a convoluted tax system and unify businesses under a single tax framework to enhance national tax compliance, its implementation has particularly benefited MSMEs. This is largely due to adopting a fully online GST compliance module, which has regulated a significant portion of the previously unorganized sector, thereby fostering a favorable environment for MSME growth.

1. As mentioned by Union Finance Minister Nirmala Sitharaman's office in a now-deleted tweet.
2. Press Release issued by RBI on Sectoral Deployment of Bank Credit – January 2024 dated 29 February 2024
3. MSME Pulse February 2024
4. Udyog Aadhar Memorandum issued by Office of Development Commissioner - MSMEs Government of India in FY 20-21
5. Press Release dated 11 December 2023 issued by Ministry of MSME



The mandatory reporting under GST has facilitated a transparent exchange of sales data among buyers, sellers, government departments, and banks. GSTN data provides insights into tax compliance behavior and return filing details. Banks have confirmed that the digitalization of GST has enabled them to leverage Artificial Intelligence for seamless data comparison, error identification, and expedited loan processing and disbursement. With just a click and/or an OTP, banks can effortlessly scrutinize applicant data against the information available on the GST portal, streamlining their operations and conserving valuable time and resources.

Following current trends, MSMEs increasingly opt for GST registration, as larger businesses prefer to engage exclusively with registered entities to mitigate non-compliance risks. Moreover, in 2020, the Honorable Prime Minister announced a 2% interest subvention⁶ for MSMEs registered under GST, applicable to both fresh and incremental loans. Additionally, in September 2023, SIDBI launched an app-based 'invoice financing' loan platform – GST Sahay. This highlights a clear correlation between the GST framework and credit growth extended to MSMEs.

Since GST implementation, the MSME sector has experienced a notable surge in credit availability and accessibility. This expansion underscores how GST has effectively improved transparency, simplified processes, and alleviated compliance burdens for MSMEs. Consequently, while overall credit growth may have faltered in recent years, the robust expansion of MSMEs post-GST implementation demonstrates the positive impact of the tax reform on the financial ecosystem supporting small and medium enterprises.



6. Interest Subvention Scheme for MSMEs 2018



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