

MSMEs may get 180 days to repay loans before NPA tag

Currently, bad loan classification period is 90 days

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The Union government is contemplating an extension of the non-performing assets (NPA) classification period for loans to micro, small, and medium enterprises (MSMEs) from the current 90 days to 180 days in the forthcoming FY25 Budget, according to a senior government official.

“To provide support and relaxation to MSMEs, the government may extend the NPA period. Currently, the NPA period is 90 days, but it may be increased to 180 days. This may be included in the Budget,” said the senior government official.

MSMEs are crucial to job creation in India, contributing around 29 per cent to the country’s gross value added and approximately 45 per cent to its exports.

However, they often face challenges in receiving timely payments, leading to loan repayment defaults.

The government has mandated a 45-day payment cycle for goods and services purchased from SMEs starting April 2024, which may see further adjustments due to complaints from various quarters.

An email query sent to the finance ministry didn’t receive a response until the time of going to press.

During the Covid-19 pandemic, the Reserve Bank of India (RBI) extended the NPA classification period from 90 days to 180 days temporarily.

The official further mentioned potential relaxations for special mention accounts (SMA) for MSMEs. SMA is a classification banks use to identify loans showing signs of stress. Turn to Page 6 ▶

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Gross NPAs in MSME loans by SCBs fell 14.3% in FY23

SMA 0 might be increased from 30 days to 60 days, SMA 1 from 60 days to 90 days, and SMA 2 from 90 days to 120 days, the official said. According to RBI data, the share of outstanding bank credit to MSMEs in FY24 was 28 per cent of total credit to the industry segment, with the remaining 72 per cent going to large enterprises. In 2023, the

Ministry of MSMEs reported to the Rajya Sabha that an expert committee estimated the overall credit gap in the sector to be between ₹20 trillion and ₹25 trillion. Gross NPAs in MSME loans by scheduled commercial banks dropped by 14.3 per cent to ₹1.31 trillion for FY23, from ₹1.54 trillion in FY22, the ministry informed the Upper

House in July 2023. Krishnan Sankarasubramaniam, former managing director and CEO of Punjab & Sind Bank, believes that postponing the NPA and SMA classifications will not significantly impact a bank's asset quality. "However, MSMEs will receive a boost if, along with this, there is careful handling of MSMEs because it is a very

fertile category," he said.

Chandan Sinha, former executive director of the RBI, noted that the change in NPA classification would not require an amendment to the Banking Regulation Act. "In the Budget, the government may announce the measures for MSMEs while the final notification may come from the RBI," he added.