

Banks may tighten lending to MSMEs

Experts say 25% US tariff could render export-oriented firms uncompetitive

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Banks may adopt a risk-averse approach and slow down fresh lending to export-oriented micro, small, and medium enterprises (MSMEs) to avoid stress in their portfolios after the US imposed a 25 per cent tariff on goods imported from India.

Lenders may also ask for more collateral when extending credit to this segment, they added.

The asset quality of the MSME sector has remained stable so far. MSME lending outpaced credit growth in the retail and services sectors in FY25, rising by 14.1 per cent amid an overall decline in bank credit.

A senior official at a state-owned bank, requesting not to be quoted, said around 45-50 per cent of MSMEs were export-oriented,

and lenders would now have to choose amongst MSMEs whether they are export-oriented or not.

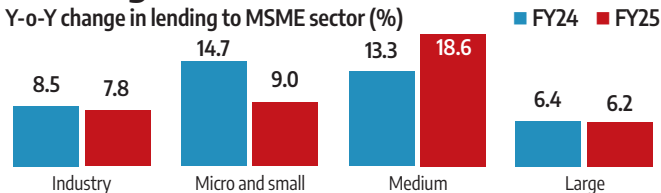
“We do not want stress in exports to trickle down to our books. Hence, to avoid any such risk, risk aversion may increase. As a bank, we may tighten our lending to MSMEs,” the official said.

Experts pointed out that former US President Donald Trump’s tariff move could dent growth in key MSME sectors such as textiles, gems and jewellery, footwear, and furniture, that are heavily reliant on export income. The 25 per cent tariff, they said, would render Indian exporters less competitive compared to nations like China and Vietnam.

Sachin Sachdeva, vice-president and sector head (financial sector ratings) at Icra, said the tariff would not only impact credit

Tracking variation

Y-o-Y change in lending to MSME sector (%)



Source: RBI sectoral deployment data

demand but also raise asset quality concerns as MSME cash flows would get affected. “Nevertheless, any government incentives or shift to other markets would help them reduce the impact and the same would remain monitorable,” Sachdeva said.

State Bank of India, Canara Bank, Bank of Baroda, Uco Bank, Union Bank of India, ICICI Bank, and Axis Bank are among the

lenders with large exposure to the MSME sector.

“Fresh lending to MSMEs may get impacted,” said a senior official at a private-sector bank.

Further, banks may increase collateral requirements or charge higher interest rates, particularly for subprime borrowers. “Overall credit growth will not get affected and banks’ asset quality will also not deteriorate. We cannot deny that some sectors are going to wit-

ness some stress, and MSME is one of them, due to tariffs,” said a senior banking official with another public-sector bank.

According to economists, MSMEs that are unable to absorb or pass on the impact of the tariffs may face margin compression, leading to delayed payments or order cancellations. This, in turn, could increase the burden of unsold inventories, and create a shortfall in working capital and cash crunch, they said.

According to the latest data from the MSME ministry, gross non-performing assets in the sector dropped to 3.59 per cent of total advances as of March 31, 2025, down from 11.03 per cent in FY20.

State-owned banks, supported by central government initiatives, have increased lending to the MSME sector under government-backed schemes.