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RBI extends Liquidity Support to Micro, Small and Medium Enterprises

Refinance to SIDBI to ease Liquidity Stress to MSE Sector

In view of the need to ease the liquidity stress to Micro and Small Enterprises (MSE) sector which is employment intensive and contributes significantly to exports, it has been decided to provide refinance of an amount of ₹ 5,000 crore to the Small Industries Development Bank of India (SIDBI) under the provisions of Section 17(4H) of the Reserve Bank of India Act, 1934.

The refinance will be available for direct liquidity support to finance receivables, including export receivable, to MSEs by SIDBI or for liquidity support to MSEs through selected intermediaries, that is, banks, Non-Banking Financial Companies (NBFCs) and State Finance Corporations (SFCs). The refinance will be available against receivables, including export receivables, outstanding as on November 14, 2013 onwards. The facility will be available at the prevailing 14-day term repo rate for a period of 90 days. During this 90-day period, the amount can be flexibly drawn and repaid. At the end of the 90-day period, the drawal can also be rolled over. The refinance facility will be available for a period of one year up to November 13, 2014. The utilisation of funds will be governed by the policy approved by the Board of SIDBI.

Incremental credit to Medium Enterprises to qualify as Priority Sector

The Medium Sector (*as defined vide notification No.S.O.1722(E) dated October 5, 2006 of the Ministry of Small Scale Industries*) is also facing liquidity tightness. In order to enhance credit delivery to the medium sector, it has been decided to include, as eligible priority sector lending, incremental credit, including export credit, extended to the medium enterprises by the scheduled commercial banks (excluding RRBs) over the outstanding credit as on November 13, 2013. The facility will be available upto March 31, 2014 and will be within the overall target of 40 per cent.

Background

The liquidity support comes in the wake of slowdown in the economy which has resulted in liquidity tightness in a large number of Micro and Small Enterprises (MSEs) in the manufacturing and services sector, particularly due to delayed settlement of receivables from large corporate, Public Sector Undertakings and government departments.