



भारतीय रिज़र्व बैंक
RESERVE BANK OF INDIA

संचार विभाग, केंद्रीय कार्यालय, एस.बी.एस.मार्ग, मुंबई 400001

DEPARTMENT OF COMMUNICATION, Central Office, S.B.S. Marg, Mumbai 400001
फोन/Phone: 91 22 2266 0502 फैक्स/Fax: 91 22 2270 3279

वेबसाइट : www.rbi.org.in/hindi
Website : www.rbi.org.in
इ-मेल email: helpdoc@rbi.org.in

June 4, 2010

RBI Staff Studies : "Trends in Select Micro and Small Scale Production Items during Phases of Industrial Slowdown"

The economic strain encountered by the Indian industrial sector during downturns in business cycles is captured by the monthly index of industrial production. However, the index fails to document the degree and extent of the hardships faced by certain sections of the industry, particularly the unorganized small scale sector during periods of stress due to inadequate representation in the index. The lack of high frequency data hamper the macroeconomic analysis and flow of useful information for an employment intensive sector like small scale industry which is characterized by several forward and backward linkages. It is a well known fact that the small scale sector suffers from constraints some of which are limited access to finance, discontinuous cash flows and constrained capacity to absorb adverse demand shocks which further aggravates during industrial slowdown phases. The sector accounts for bulk of the unskilled employment and is a conduit for transmitting shocks to the real sector. The identification of pockets of stress within the sector may facilitate the Central Bank to address the sector's credit needs at appropriate prices.

[This paper](#) attempts to circumvent the data handicaps and gauge the impact of the slowdown in 2007-09 on small scale industry and its employment. The monthly trends in ten small scale items included in the index of industrial production for which data is more consistently available for the period April 2000 to February 2009 is segregated and analysed. A comparative performance measure index for micro and small scale (MSEs) items and non- small scale (Non-MSEs) items is constructed to evaluate the performance of the industry groups during the period 2001-09, with a particular focus on the slowdown period of 2007-09. Econometric analysis is then performed to explain the causal factors behind variations in the MSE production index. The paper finds evidence that the cyclical slowdown in the industry that set in during 2007-08Q1, retarded the pace of growth in MSEs as well as Non-MSEs. However, MSEs have recorded relatively better performance than Non-MSEs during the slowdown period at least in the ten items under review. Econometric analysis shows that both domestic and external demand bears a statistically significant influence on MSE output. However, the impact of domestic demand is comparatively stronger. Interestingly, credit to MSEs has been found to be very significant, although the sign of the coefficient (negative in this case) is contrary to theoretical expectations.

The moderation of growth in MSEs is presaged to have a dampening impact on employment in the sector, particularly in 'food products' and 'wood and wood products' which have recorded substantial decline in output and employ bulk of the unskilled labour with no social security.

The paper concludes that policies on MSEs credit and technology needs to be customised by the nature of the MSE business cycle, nature of its product and markets it caters to. Given the dependence of large number of employees on the sector, adequate attention needs to be channeled into social security cover for employees with, of course, an eye on the associated costs of providing such cover.