

Govt may raise interest rate subsidy for small exporters

MSME exporters are facing the twin challenge of slowing demand and interest rate hikes

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The government is considering raising the interest equalization or subsidy benefit extended to small and medium exporters to help relieve some of the burden on them due to rising interest rates.

The move to provide credit at interest rates that are lower than the market rate comes at a time when Indian exporters are facing a serious challenge on account of slowing demand in key markets amid record inflation and the threat of a global recession.

The government is looking to increase the interest subsidy from 3% to 5% for micro, small and medium manufacturers, and from 2% to 3% for manufacturer-exporters and merchant-exporters exporting under 410 tariff lines.

The department of commerce, which is calculating the cost of the exercise, will formally move the proposal to the ministry of finance. The scheme helps exporters get access to capital at a reduced cost. Exporters have been pressing the government to restore the interest equalization benefits amid a series of interest rate hikes by the central bank.

"We are considering the demand to restore the interest equalization rates of 5% for MSME exporters and 3% for those



Interest equalization mostly covers labour-intensive sectors like readymade garments, toys, handicrafts, auto components and processed food. **BLOOMBERG**

dealing in 410 specified tariff lines...we are calculating the additional cost burden for the exchequer. We will then move a proposal to the ministry of finance to consider it," said a senior government official.

interest equalization benefit to 3% from 5% for MSME manufacturers over the last two years, as overall interest rates had come down and MSMEs were getting loans at 7-7.5% interest. However, exporters argue, now MSMEs are being

charged nearly 10% interest for loans, which is higher than the pre-covid level, and that the interest burden is only expected to rise.

Ajay Sahai, director general and chief executive officer, Federation of

Indian Export Organizations (FIEO) said interest rates have already crossed pre-covid levels and are likely to move further by December as the US Federal Reserve raises rates. "The interest subvention should be raised to 5% and 3%

respectively to provide a helping hand to our MSMEs," he said.

The government has budgeted ₹2,621 crore for the scheme for FY23, against ₹3,151 crore for FY22 in the revised budget.

Queries emailed to the department of commerce remained unanswered till press time.

The central bank in March extended the interest equalisation scheme for pre- and post-shipment rupee credit for MSME exporters till March 2024.

The central bank's monetary policy committee on 30 September hiked the repo rate for the fourth time this year by 50 basis points and economists expect another hike in December with inflation hovering at over 7%.

India's merchandise exports grew at the slowest pace in 19 months by 4.82% in September year-on-year to touch an eight-month low of \$35.45 billion. The WTO last week estimated global trade growth to slow to 1% in 2023 from 3.5% in 2022, amid heightened global uncertainty.

Key exports including engineering goods, ready-made garments, cotton yarn, and plastics and linoleum reported a decline in September compared with the corresponding month last year, as demand slowed across major markets including China, the US and the European Union.

The interest equalization scheme mostly covers labour-intensive and employment generating sectors like readymade garments, toys, handicrafts, auto components and processed food.

TROUBLED EXPORTERS

EXPORTERS have been pressing the government to restore the interest equalization benefits

GOVT had reduced interest equalization benefit to 3% from 5% for MSME manufacturers

GOVT has budgeted ₹2,621 cr for the scheme for FY23, against ₹3,151 cr for FY22

"Exporters are facing the burden of high interest rates and slowing international demand, and therefore, we are considering the proposal of hiking the interest subsidy rates," he added.
The government had reduced the