

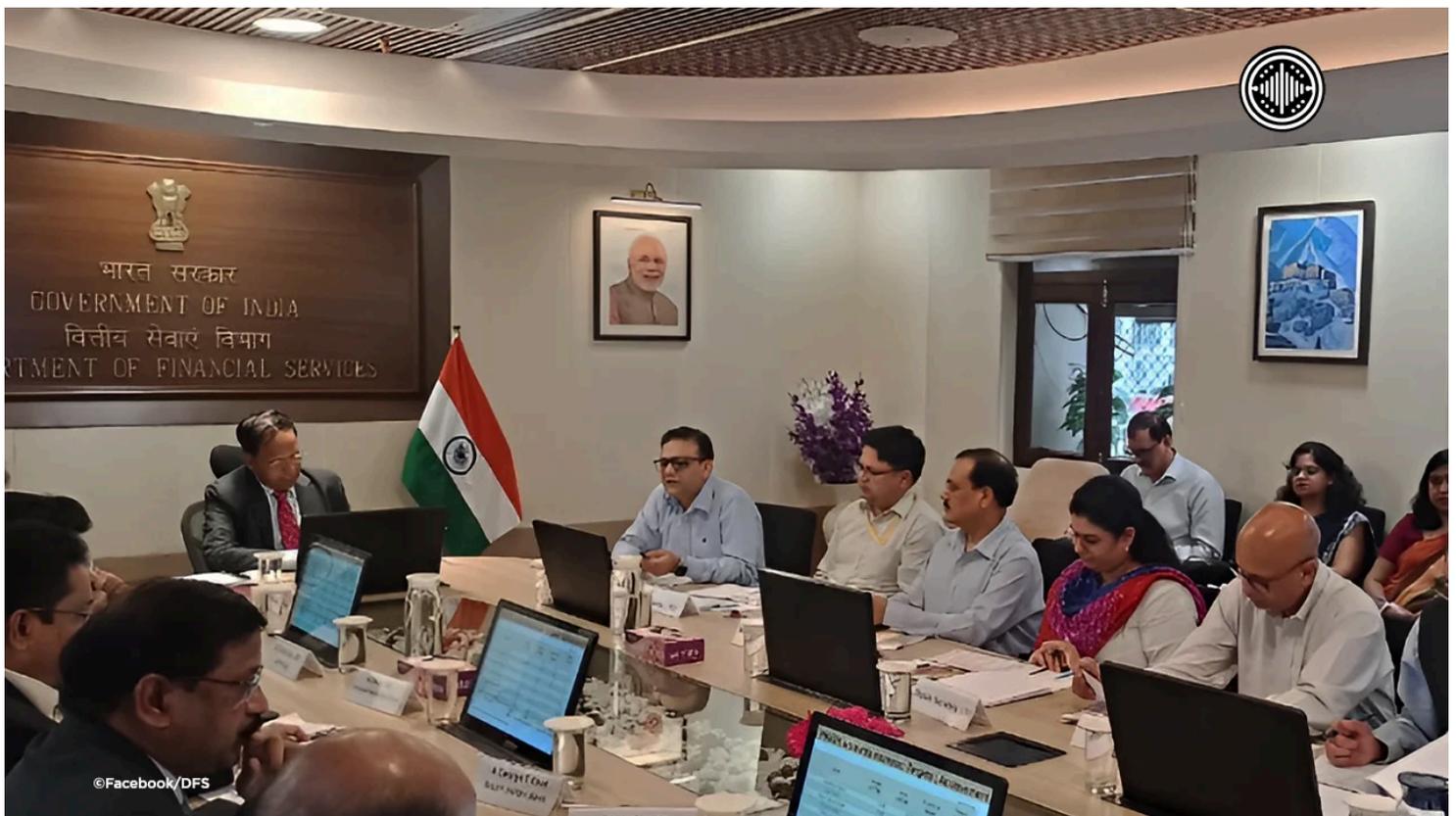
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NPAs in MSME Loans to PSBs Decline, But Micro Enterprise Stress Persists

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Non-performing assets (NPAs) in the Micro, Small and Medium Enterprises (MSME) sector linked to public sector banks (PSBs) have shown a consistent decline, according to new government data presented in Parliament. However, the micro enterprise segment continues to show signs of stress.

As of March 31, 2025, the gross NPA ratio in MSME loans stood at 6.18 percent. This marks a steady decline from 7.99 percent in the previous year and 12.8 percent in March 2022. The gross funded advances to the MSME sector by PSBs rose to ₹13.07 lakh crore, reflecting a year-on-year growth of 11.3 percent. The overall GNPA amount fell to ₹80,749 crore, indicating a 14 percent drop from the previous year.

Despite this progress, loans to micro enterprises still account for a significant portion of bad loans. NPAs in this category were valued at ₹52,519 crore as of March 2025, declining only three percent year-on-year. In contrast, NPAs for small and medium enterprises showed sharper reductions. Small enterprise NPAs declined by 28 percent to ₹19,677 crore, while medium enterprise NPAs dropped by 30 percent to ₹8,553 crore.

Experts attribute the improvements to multiple policy measures. These include the Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) and stricter lending standards adopted by banks. Public sector banks have also improved their overall asset quality. Their gross NPA ratio, which stood at 14.58 percent in March 2018, was brought down to 3.12 percent by September 2024.

Loan write-offs have also contributed to the decline in reported NPAs. In FY25 alone, write-offs exceeded ₹58,000 crore. While this has helped banks clean up their balance sheets, some financial analysts have expressed concern over potential stress building in the unsecured personal loan segment.

To address growing challenges in small-ticket recovery, five major public sector banks, including State Bank of India, Punjab National Bank, and Bank of Baroda, are reportedly working on creating a common debt recovery platform. The initiative would focus on loans below ₹5 crore, covering a large portion of retail and MSME credit.

Despite these initiatives, the continued sluggish pace of recovery in micro enterprise loans signals the need for more targeted interventions. Analysts note that while overall NPA trends are encouraging, long-term financial stability for the MSME sector will depend on strengthening credit discipline and widening access to structured support.