



Growth of MSME's and its significance in the Indian economy

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Abstract

This study examines the growth of Micro, Small and Medium Enterprises (MSMEs) and their significance in the Indian economy, with particular emphasis on registration trends and enterprise distribution. Using secondary data from the Reserve Bank of India and the Ministry of MSME dashboard, the study analyses MSME credit growth and registration patterns by enterprise category, gender, social group, and economic activity. The findings highlight the dominance of micro-enterprises and the substantial presence of trading and service activities. MSMEs contribute to employment generation, entrepreneurship, exports, regional development, and innovation, making them essential for inclusive economic growth and sustainable development in India.

Keywords: MSMES, micro enterprises, regional development

Introduction

The Micro, Small, and Medium Enterprises (MSME) sector in India, formally established by the MSMED Act of 2006, encompasses businesses engaged in manufacturing, processing, or preservation of goods. Under the recent classifications of the Aatma Nirbhar Bharat Abhiyan 2020, MSMEs are categorised based on their investment levels. The role of MSMEs in the Indian economy is crucial for several reasons. It serves as a significant source of employment, particularly in economically disadvantaged regions, contributing to poverty alleviation and inclusive growth. MSMEs bolster the country's export potential, fostering international trade and economic stability. They promote entrepreneurship and innovation, driving competitiveness and productivity within the economy. Through initiatives and support from the government, the MSME sector continues to thrive, making substantial contributions to India's GDP and overall economic development.

The MSME sector encompasses businesses engaged in various economic activities, including manufacturing, processing, and services. Traditionally, MSMEs were classified based on whether they were manufacturing or service-based entities.

The classification of MSMEs is now primarily based on their investment amount and annual turnover. As per the latest criteria:

- **Micro Enterprise:** Businesses with an investment of less than Rs 1 crore and turnover of less than Rs 5 crore fall under this category.
- **Small Enterprise:** Entities with an investment of less than Rs 10 crore and turnover of less than Rs 50 crore are classified as small enterprises.
- **Medium Enterprise:** Businesses with an investment of less than Rs 50 crore and turnover less than or equal to Rs 250 crore fall into the medium-scale category.

Table 1: Growth in deployment of gross bank credit to MSMEs (Y to Y percent)

Segment	March 2024	August 2024	March 2025	August 2025
Micro & Small Enterprises	14.7	13.4	8.8	20.9
Medium Enterprises	13.3	19.2	18.6	13.1
Total MSME credit	14.3	15.1	11.7	18.5
Large Industry Comparison	6.4	7.7	6.2	1.8

Source: Monetary Policy Report, RBI Bulletin (October 2025)

Objective of the Study

- To examine the growth and development of Micro, Small and Medium Enterprises (MSMEs) in India.

Analysis

MSMEs are of great importance in India's economic development, serving as engines of growth and drivers of socio-economic progress. These enterprises are integral to job creation, particularly in rural and backward areas,

contributing significantly to the reduction of unemployment and poverty. The MSME sector, overseen by the Ministry of Micro, Small, and Medium Enterprises, has received substantial support from various stakeholders, including government bodies and state governments, facilitating its growth and development. By fostering the growth of the Khadi, Village, and Coir industries, MSMEs have contributed to rural industrialisation and the empowerment of local communities.

Table 2: MSME Registration by Enterprise Category as on 03.10.2026

Segment	Numbers
Micro Enterprises	9,68,31,183
Small Enterprises	5,44,250
Medium Enterprises	41,973

Source: <https://dashboard.msme.gov.in/>

Analysis: As of 3 October 2026, MSME registrations are overwhelmingly concentrated in the micro-enterprise segment, with 9,68,31,183 registered enterprises, indicating the dominant role of micro businesses in India's MSME ecosystem. In comparison, 5,44,250 small enterprises and 41,973 medium enterprises are registered. The distribution highlights the highly micro-enterprise-oriented structure of the MSME sector and underscores the importance of targeted financial, technological, and institutional support for micro businesses.

Table 3: MSME registration by Gender as on 03.10.2026

Gender	Numbers
Male	6,02,60,413
Female	3,67,02,204
Others	4,40,429

Analysis: The data indicate that male-owned enterprises constitute the largest share of MSME registrations, followed by female-owned enterprises. Registration under the "Others" category remains comparatively very low, highlighting a gender imbalance in MSME ownership and participation.

Table 4: MSME registration by Special Focus Group as on 03.10.2026

Special Focus Group	Numbers
SC	1,01,49,718
ST	34,70,757
OBC	3,16,02,759
Divyangjan	7,73,086

Analysis: The data show that OBC-owned enterprises account for the largest share of MSME registrations, followed by SC-owned enterprises. ST and Divyangjan registrations are comparatively lower, indicating the need for greater financial, institutional, and capacity-building support to promote entrepreneurship among these groups.

Table 5: MSME registration by Activity as on 03.10.2026

Special Focus Group	Numbers
Manufacturing	1,92,20,828
Service	3,74,94,668
Trading	4,07,01,463

Analysis: The data indicate that trading enterprises account for the highest number of MSME registrations, followed by service enterprises, while manufacturing enterprises represent the smallest share. This distribution highlights the strong presence of trade and service activities within India's MSME sector.

Importance of Msme in the Economic Development of India

1. Employment Generation: MSMEs serve as significant sources of employment, particularly in economically disadvantaged regions. They provide opportunities for

both skilled and unskilled labour, thereby contributing to job creation and reducing unemployment rates.

2. Promotion of Entrepreneurship: MSMEs foster entrepreneurship by providing a platform for individuals to start and grow their businesses with relatively low investment requirements. They encourage innovation and creativity, driving economic dynamism and fostering a culture of entrepreneurship within the society.

3. Regional Development: MSMEs play a crucial role in regional development by establishing businesses in remote or underdeveloped areas, thereby promoting balanced economic growth across different regions. They decentralise economic activities, reducing the concentration of industries in urban centres and spreading economic opportunities to rural and semi-urban areas.

4. Export Promotion: MSMEs contribute significantly to export promotion by manufacturing a wide range of goods and services for international markets. They often specialise in niche products and cater to specific market demands, enhancing the country's export competitiveness and widening its global market reach.

5. Diversification: MSMEs contribute to economic diversification by operating in various sectors such as manufacturing, services, agribusiness, and technology. They reduce the reliance on a single sector or industry, thereby enhancing the resilience of the economy to external shocks and market fluctuations.

6. Innovation: MSMEs are hotbeds of innovation, constantly developing new products, processes, and technologies to stay competitive in the market. They drive technological advancements, improve productivity, and facilitate the adoption of innovative practices across industries, contributing to overall economic growth and development.

7. Reduction of Income Disparities: MSMEs play a crucial role in reducing income disparities by providing opportunities for wealth creation and income generation among diverse sections of society.

8. Support for Large Industries: MSMEs often serve as suppliers and subcontractors to large industries, providing them with essential goods, components, and services. They contribute to the value chain of large industries by offering specialised products, customised solutions, and cost-effective services.

Conclusion

The study concludes that MSMEs play a vital role in strengthening the Indian economy through employment generation, entrepreneurship, regional development, exports, and innovation. The registration data highlight the dominance of micro-enterprises, while trading and service activities account for substantial participation in the MSME sector. Gender and social-group distributions also indicate opportunities to promote more inclusive entrepreneurship. Furthermore, the growth in MSME credit reflects the

importance of institutional finance in supporting business expansion. Therefore, simplified registration procedures, improved access to affordable credit, digital capacity building, technological advancement, and targeted government assistance are essential for enhancing MSME competitiveness and promoting sustainable economic development in India.

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