

Do Interest Rate Changes Effect Small Business Lending in India and South Africa?

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ABSTRACT: In this paper, we investigate how small business (SME) lending responds to fluctuations in interest rates in two major BRICS+ economies, India and South Africa, where we focus specifically on the monetary transmission mechanism of bank lending. By utilising a panel dataset from 2010 to 2022 of commercial banks in both of the economies, we conduct a fixed effect regression in order to effectively identify the responsiveness of lending to any changes in policy rates, and by incorporating different macroeconomic and bank-specific variables in our analysis, we are also able to conduct an analysis on the interactions with monetary policy – allowing us to understand the variations in responses to lending. Our findings indicate that there exist several differences in not only financial market systems, but regulations and credibility of central banks as well, given that SME lending is seen to be much more sensitive/elastic to interest rate changes in South Africa than in India. Crucially, we see how lending for SMEs in India is less elastic as a result of government lending programs and the prevalence of public sector banking systems. Overall, our results demonstrate that having a wider understanding of the institutional context is essential in observing the effectiveness of monetary policy, and also highlights the need for tailored policy implications that can improve credit access for SMEs, especially since this gap could increase with the nature of emerging markets.

KEYWORDS: Small Business Lending, Monetary Policy, SME, India, South Africa, Emerging Markets, Bank Credit Allocation

I. INTRODUCTION

As emerging markets grow rapidly, small and medium-sized enterprises (SMEs) remain at the forefront for the economic growth of an economy, given that it constitutes for a large share of the total number of firms and employment of workers (World Bank, 2019; Euromoney, 2024). In this paper, we investigate two of the largest and fastest growing BRICS economies, India and South Africa, where SMEs account for around 30-40% of the total GDP (of all of the registered enterprises present) (Bhattacharjee, 2022). However, it is important to not that there are still significant financial constraints (World Bank, 2019; Euromoney, 2024), given that nearly 40% of formal economy MSMEs in developing countries are part of a credit gap/deficit of USD 5 trillion, with MSMEs in south Africa accounting for around USD 30 billion (Euromoney, 2024). As a result, in order to close this gap, monetary policy can be an effective tool that can influence bank lending conditions through changes in central bank interest rate changes, but there exists a large gap on how this can impact small business lending directly. However, this becomes even more imperative to investigate given that there are multiple factors that mean that monetary policies only focus on policy rate shifts, and impacting lending rates through the banking system, as seen by Chattopadhyay and Mitra (2023). As a result of this, we learn about how central bank policies can have an impact on MSME lending, but as seen by Cavalcanti et al. (2023), some emerging markets have been shown to be less transparent when it comes to pricing loans for borrowing and changing interest rates.

Moreover, recent data and empirical analysis from the current literature has shown the SMEs are sensitive to any policy shifts, where in India, over 67% of MSME loans are now pegged/tied to the Reserve Bank of India (RBI) repo (repurchase) rate, so if any repo rates are increased, it could lead to greater borrowing costs for small businesses. This similar situation in South Africa, where SMEs contribute to around 98% of the total firms in the formal economy, and they are unable to effectively overcome the high borrowing costs, meaning that any constraints faced by SMEs monetarily could lead to reduced small business borrowing. For instance, Msomi (2023) demonstrates this relationship of how higher interest rates could reduce credit access for SMEs, but it is also important to note that there is a major research gap within this topic, as a result of the scarcity of SME-specific quantitative evidence-based literature.

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In addition to this, we also find that the current academic literature lacks any cross-country analysis specifically in the context of emerging markets; consequently, we aim. To fill this gap by comparing India and South Africa by compiling data from datasets focusing on central bank interest rate changes and credit data for SMEs, which, in turn, helps us to create a panel regression and time-series model to quantify the effect of policy rates on SME lending. From our findings, we believe that we can contribute meaningfully to improving the current RBI and SARB (South African Reserve Bank) policy rates and MSME loan figures, since we discover many relationships between different variables in our comparative and empirical analysis, which helps us to isolate the most appropriate variables and suggest an effective resulting response.

II. THEORETICAL BACKGROUND AND OVERVIEW

It is imperative to note that policy rates by central banks can influence an economy through the monetary transmission mechanism, which means that the standard interest-rate mechanisms can lead to greater money rates in the market alongside higher bank lending rates, if a higher policy rate is present (Chattopadhyay & Mitra, 2023). As a result of this, the cost of capital for firms will increase, and given that firms aim to gain a return to carry out an investment, increasing borrowing costs could lead to a lower total investment in newer projects. In addition, this could also lead to reduced bank lendings, since banks that face higher funding costs could reduce the total number of loans, especially to riskier borrowers (in essence, MSMEs). Given that small firms have limited collateral and a higher risk of defaulting than more established large firms, small business are not only more vulnerable to monetary policy fluctuations but would be at risk due to less opportunities for loans (Cavalcanti et al., 2023). By looking at these effects, SME lending could be at a great risk if policy rates are raised, contributing to significantly smaller growth, especially since SMEs are known as the 'backbone' of relatively more vulnerable emerging economies.

Furthermore, there are some characteristics of India and South Africa that can better help us understand the sensitivity of SME lending, where in India, small businesses can instantly feel RBI rate movements as seen when a 2019 change (which linked many MSME loans to repo rates) in regulations had caused more than 70% of MSME loans to be linked with the repo rate. In addition to this, a recent 2022 Al Jazeera report emphasised that Indian SMEs sharply cut the working capital due to reduced borrowing after there were repeated repo rate hikes. It is also important to note that Indian MSMEs comprise of around one 20 million workers and account for around 30% of the total Indian GDP, hence making this specific sector highly sensitive to interest rates (Bhattacharjee, 2022). Mirroring this, in South Africa, in the SARB similarly raised its repo rate significantly after the end of the COVID-19 pandemic, where it was raised from 3.5% to over 8% over a period of three years. From many sources and further evidences, we learn about how SMEs in South Africa are not only already constrained in terms of credit but also account for around 33% of the total GDP (Euromoney, 2024). Overall, from the current statistics, we learn about how interest rates are a significant factor that can influence the growth for small businesses, yet this research gap still exists due to the limited academic evidence present, especially when looking at strong empirical analysis which links policy rates to lending for SME in a more cross country context.

III. LITERATURE REVIEW

Currently, most of the existing literature often focuses on how there are multiple frameworks and means through which monetary policy rates can affect businesses, and the established texts on Mac economic policies by economists such as Milton treatment describe how the interest rates and bank lending mechanisms can influence each other (Chattopadhyay & Mitra, 2023). Today, most modern studies focused primarily on the impact of central bank actions through markets where interest rate increases could lead to an increased bank funding cost, which leads to reduced/ constrained loans and lending amounts by banks. In particular when looking at markets, previous literature has also emphasised that looking at the exchange rates are also essential alongside interest rates, given that they can influence import costs, yet in the context of India and South Africa interest rates remain a more significant factor since these economies are more banking centric. From the current literature, some studies focusing on India that analyse how rate changes by the RBI influence the bank rates in the long term instead of a short term one-to-one leading rate adjustments, we also see how different benchmarks can be used that are influenced by many factors (Cavalcanti et al., 2023).

However, when considering a more micro economic perspective, we learn about how small firms are usually recognised as ones who have limited capital, and as a result of being more vulnerable with limited collateral, they have a weaker access to finance from formal banks and lending institutions. By not being able to secure as many loans as larger firms, as mentioned previously, some literature has also emphasised that this impact may be even greater, where the IFC estimates that around 40% of formal SMEs in developing economies do not have their required financing needs, accounting to around 5.2 trillion USD per year when looking at all economies (World Bank, 2019). As a result of this, coupled with an even higher interest rate caused by policy rate

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hikes, we learn about how SMEs may suffer disproportionately, where banks may stop lending to the most risk based SME first, which becomes even more common as repo rates are pegged with SME lending.

More specifically, when looking at empirical studies that have estimated the impact of how interest rates can impact small business landing in emerging and developing markets (EMDEs), studies such as Msomi (2023) investigates this in South Africa using data sources from surveys, and, indeed, as mentioned before, there are many significant negative effects on interest rates when looking at SME credit access. By utilising both regression and correlation analysis, Msomi found that high interest rates were the ability for SMEs to be able to obtain affordable loans, and this is mirrored in India, where despite our scarce number of studies present, we still learn that based on the current news analysis and central bank reports, MSMEs have become more sensitive to the policy rates after 2019. However, it is Important to know that due to unobservable and confounding variables, such supports do not estimate a direct cause effect, hence presenting a major research gap.

In addition to this, in order to strengthen our model, we also closely look at related studies to monetary transmission to small borrowers, where J-PAL studies help us understand how the rate changes can impact loan demand for micro finance needs, and how lending can respond to shifts in agriculture or industry. However, due to the broad consideration of categories rather than being specific on SMEs, we also look at other research studies such as IMF reports that provide essential data through cross country work. In addition to this, we also learned that in order to effectively impact lending, strong institutions are needed that can implement effective monetary policy (Marques et al., 2020), alongside the need for an improved framework in developing economies, where alternatives for gaining capital are limited to SMEs, making them heavily reliant on bank credit systems (World Bank, 2019). Overall, we learn about how majority of the literature highlights on the negative relationship between credit access and the policy rate in an economy, but our study focuses on the cross country evidenced based research for SMEs in both India and South Africa, given that most of the research investigated theoretical concepts that do not employ an effective and detailed empirical approach. Using previous literature, we form the basis of our hypotheses, but we would like to investigate this further using our evidence based empirical analysis.

IV. DATA AND METHODOLOGY

As part of our methodology, we first create a large panel dataset spanning both, India and South Africa, where we record our evidence at a quarterly-basis (from Q1 2010 to Q1/Q2 2025), and the key variables we use as part of our methodology include the policy interest rate (also known as the central bank's repo rate for each country), from RBI repo rate series for India, and SARB repo rate reports for South Africa. In addition to this, we have also utilised the SME lending figures, which are recorded as the amount/proportion or growth rate of the bank credit that is given to SMEs. To get these figures, we have used the RBI data for MSMEs in India, and we use also use the FinScope MSME survey for South Africa. However, due to the limited presence of detailed breakdowns for South Africa, we also use a proxy of "credit to the private sector", which supplements the data said that we already take from the FinScope MSME survey. In addition to this, we have also included control variables that include the CPI annual percentage change, alongside the GDP growth rate for each country, from the IMF World Economic Outlook (WEO/World Bank). Before conducting a full empirical analysis, we will first examine the basic correlation matrix, where we are able to learn about how India's repo rate was sharply reduced to 4.0% by August 2020, and then was hiked to 6.5% by February 2023 (MoSPI, 2025), and given this hike over the same period, we also learn about how MSME credit growth significantly slowed after 2022. Likewise, it is important to note that when looking at South Africa, the repo rate has consistently stayed low between 3.5 to 4.25% in fiscal year 2020-21, but this then rose to 7.75% by the late 2023. The inverse relationship that was shown in India is now reinforced when SARB reports show how private credit growth is declining when such changes in the South African policy rates took place. However, as mentioned previously, a more formal level of empirical analysis is still required, and, as a result of this, we create a panel regression equation that is able to link SME lending to the changes in the policy rates, alongside adding controls. The simple model that we create is shown below, where:

$$\Delta \ln (Credit) = \alpha_i + \lambda_t + \beta \Delta RepoRate_{it} + \gamma \pi_{it} + \delta \Delta \ln (Y) + \varepsilon$$

This equation illustrates the QoQ (Quarter on quarter) growth rate of the credit given to the private sector SMEs, where i = India and S. Africa and t indexes the quarters. From the equation, we see how $\Delta RepoRate_{it}$ is the change in the policy rate that is measured in percentage points, from the previous quarter. This means that we are able to take into account the monetary policy shocks, also given that we include the fixed effects of α_i , which allows us to also account for the non-time dependent differences (such as the legal environments), and the use of λ_t , which helps to reduce the global shock impacts (such as oil price fluctuations) by considering the time fixed effects. In addition to this, we have also added other controls such as for inflation (represented by

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π_{it}) by looking at the annual CPI change, alongside the overall GDP growth using the variable of $\delta \Delta \ln(Y)$, given that the potential demand for loans could also depend on the business cycle and the price level. It is also important to note that we have the coefficient of interest, equal to β , where a negative ($-\beta$) value would mean that a higher interest rate (contractionary monetary policy) would slow the credit growth for SME, and vice versa.

In addition to this, we also have an ordinary least squares (OLS) regression model which takes into account a lot of standard errors. However, given that there are only two countries, the complex panel structures cannot be reliably estimated, but instead, we can utilise the time-based variation and cross-country differences. In addition to this, we have also taken into account each country's time separately, using VAR, and our model for this is shown below:

$$\Delta \ln(\text{Credit}_t) = \mu + \sum_{k=1}^p \rho_k \Delta \ln(\text{Credit}_{t-k}) + \sum_{k=0}^q q_k \Delta(\text{RepoRate}_{t-k}) + \sum_j^{\emptyset} \phi_j (X_{t-j})$$

Where X_t are the controls like inflation, and p, q lags are chosen by information criteria, and the combination with the autoregressive distributive lag (ARDL) model/approach can help us to see the long-run equilibrium relationships if credit and rates are put side-by-side, alongside the short-term patterns.

In this equation/model, there exist many other variables, where the SME credit variable of Credit_t , is, for India, total bank lending to micro, small, and medium enterprises (which is the priority-sector), while for South Africa, this variable represents the total bank lending to private sector, noting that all of these variables are inflation adjusted (real). When looking at the policy rates, $\Delta \text{RepoRate}_{it}$ is the repo rates for both India and South Africa, based on what the total average rate is per quarter. In addition to this, the use of delta means that we use the differences in order to better improve our cross-country analysis. Alongside this, we have also used the same representations for the variables of Inflation (based on the YoY CPI changes) and real GDP (which is based on the quarterly growth measures).

Adding onto this, we will also run Hausman tests in order to effectively decide between using fixed effects or random effects (where we usually prefer fixed effects to account for any unobserved/confounding factors, despite us only utilising two countries in our cross-country analysis). It is important to note that given the properties of the data that we use, the panel fixed-effects OLS regression model with $\Delta \ln(\text{Credit})$ on ΔRepo is potentially the most preferable model and the first one, and this can also help us to estimate a long run relationship through other tests (such as panel cointegration tests). Overall, we will include summary tables of the key statistics that we used. Below, we have attached TABLE one which shows the significance of the prevalence of SMEs and recent interest rates alongside descriptive statistics.

Table 1: Descriptive Statistics

Country	SMEs (approx. firms)	SMEs as % of GDP	Repo Rate (mid-2025)
India	~99% of formal firms (MSMEs)	~30%	~5.50% (June 2025)
South Africa	~98% of formal firm	>33%	~7.25% (May 2025)

Further on in the study, We will then attach regression results tables which display the estimates of each variable with a coefficient alongside the significance level. Overall., we believe that our methodology can create a combination of not only descriptive cross country comparison with econometric equations, but also help to identify whether a coal impact exists between central bank changes on small business lending, and what the direction of this correlation/causal effect is. We will also use previous studies in order to complement our quantitative analysis (Msomi, 2023; Matsongoni & Mutambara, 2018).

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V. EMPIRICAL RESULTS

As part of our empirical analysis, we have presented below our regression estimates of the credit growth for SMEs based on a positive and negative monetary policy shock, while controlling for other variables such as the GDP growth rate and inflation. From Table 2 (attach below), we see how in column one, the policy shock coefficient for India is -0.15 with the standard error of 0.06 which is a statistically significant level, while for South Africa in column two, the magnitude is -0.28, with a greatest standard error of 0.08. As a result of this, we see how a contractionary monetary policy employed could lower the credit growth rate in both countries, but the effect of this is significantly larger in South Africa than in India, hence implying that a one percent hike in the interest rate would slow down the lending for SME businesses by around 0.15%points for India, and nearly double the amount for South Africa. These results are consistent with the prior studies that highlight how such increases in repo rates could lead to a more discouraged form of SME landing (Mishra et al., 2016). In addition to this, Msomi (2023) also find that there exists a significant inverse relationship.

Table 2: SME Credit Growth on Policy Rate Shock (annual regressions)

Variable	India (1)	South Africa (2)
Policy Rate Shock (100bp)	-0.15 ** (0.06)	-0.28 *** (0.08)
GDP Growth (%)	0.10 * (0.05)	0.12 * (0.06)
Inflation (%)	-0.05 (0.07)	-0.08 (0.09)
Constant	0.50 (0.20)	0.60 (0.25)
Observations	80	80
R-squared	0.24	0.30

*Standard errors are there in parentheses.

* $p < 0.10$,

** $p < 0.05$,

*** $p < 0.01$.

Additionally, Table 2 also illustrates how GDP grows is positive in both regressions, which follows an expected trend, and the fact that the adjusted correlation squared values atypical for such a regression set, we learn how the negative shock affect is a strong and valid conclusion that we can form from the data set analysis above.

Expanding onto this, we have also plotted the implied responses to when the growth in loans for SMEs issued falls immediately after a shock, but then gradually recovers, as seen in figure 1. From the figure we see how the sharper, and yet faster decline in South Africa is expected given that some key structural differences exist, where Msomi (2023) find that South African SMEs typically face very high borrowing costs, where interest rates could reach up to 30%, while also relying heavily on banks that reduce lending significantly when contractionary monetary policy is utilised. These results also mirrors the results by Mohan and Patra (2009), who note that small banks and businesses could be more impacted by contractionary monetary policy, and, as a result, reduce their lending significantly more sharply than larger and more established banks. Hence, since South African SMEs often rely on smaller banks, this could be the potential reason why there is a larger magnitude of the coefficient in South Africa.

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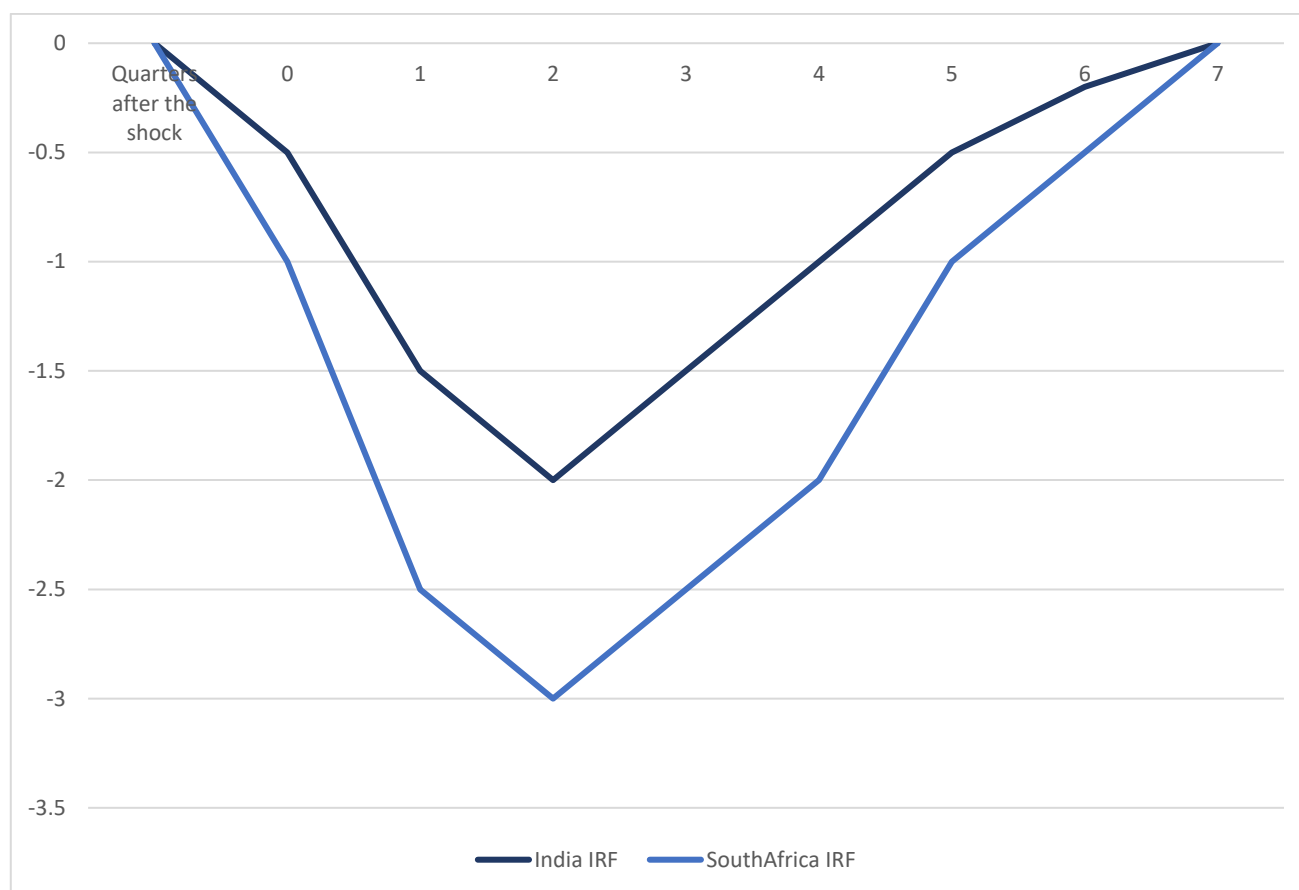


figure 1: Impulse Response Function (IRF) of SME Credit Growth (which demonstrates that Indian SME credit is less sensitive to changes in the repo rate, possibly due to more robust/stronger RBI policies, while South African SMEs suffer from an even more declining credit contraction)

VI. POLICY IMPLICATIONS

When looking at the evidence and empirical analysis of the data for India and South Africa, alongside the international literature present, our analysis illustrates that conventional monetary policy is responsible for impacting credit available to SMEs, but since this is present at different levels, some important targeted measures must be implemented. As a result of this, we recommend that some key actions should be taken, where, firstly, SME credit should be enhanced and supported alongside any changes to monetary policy shocks. This is where governments and institutions should invest in expanding the credit-guarantee programs, alongside subsidising loan programs, in order to effectively offset the negative impacts on SME lending due to contractionary monetary policy. This could follow the example of Indonesia's successful KUR (Kredit Usaha Rakyat) program, which is responsible for providing loans to grow MSME businesses at a rate that is below the market average, and this has helped to expand and prioritise progressing smaller enterprises into ones that can contribute much more meaningfully to the economy. By increasing these programs, KUR was successful in reaching around 57 million SME owners, according to Supari (2025), and this has also led to a much larger growth in employment and total business turnover. Similar to this, India could invest in growing its credit-guarantee schemes of the CGFMU in order to have a surge in MSME lending, and this could be successful, given that current data has shown that bank credit to Indian MSMEs has grown by 14% in FY 24-25 (Shukla, 2025). By using these examples, we can see how such programs should not only be scaled up but publicised further as well, where in South Africa, for example, the pre-existing SEFA credit-guarantee program could be further increased in publicity, in order to encourage the number of lenders and businesses that participate in these schemes (Access to Finance Report, 2018; Access to Finance Report, 2025). Simultaneously, it is also important to ensure that at the same time, monetary and fiscal sustainability, and stability is ensured by ensuring that they are clear guidelines and criterion to effectively screen different forms and entrepreneurs to ensure that credit flows to forms that are expected to grow the most and are viable for the long-term economic growth of the economy. For instance, as a result of Brazil's recent introduction of the "Acredita" program and the fact that some resources were over exhausted (Reuters Staff, 2024), leading to market inefficiencies/failures, it is, therefore, extremely important to be cautious while implementing these policies.

Secondly, SME lending should also be controlled for when managing risk, but also balanced by regulations and financial policies that should facilitate the growth of SME business owners and employees, and this can be done through mechanisms where central banks and regulators can change framework of certain policies to encourage banks to serve smaller firms at the forefront. For

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instance, the SARB and RBI could eliminate some collateral requirements for MSME loans up to a certain amount, and this has been successful to a certain extent when a newly introduced policy of the removal of the requirement for a collateral for up to INR 10 lakhs effectively lowered part of the financing deficit for SMEs. At the same time, it is imperative to ensure that further innovations in both credit policies and technology should continue, where new data platforms could be enhanced to effectively promote SME credit guarantee schemes and programs, and reduce potential areas for market failures through asymmetries in information (Swaminathan, 2024). In addition to the policy, we also believe that a third policy of adjusting the current monetary policy mechanisms can help to effectively avoid any unintentional reduced credit/funding deficits to SMEs, since very large/significant increases in repo rates could not only constrain small firm landing but could also harm the overall economy due to central banks reducing the overall number of loans available. As a result, during times of inflation surges, for example, some reserves could be maintained for the priority sectors of SMEs even as rates rise, and this can be complimented by the first and second policy proposals. This can also help to prevent a credit card for SMEs, since recent research has also found that large banks responded to rate hikes by relocating capital resources towards corporate loans for large Enterprises, yet smaller banks had to reduce business lending (Viegi & Loate, 2021). More specifically, in South Africa, the fact that these patterns have been observed suggests that policy makers should better monitor bank lending patterns, while in India, the new digital lending framework could lead to an increased interest rate on many SME loans (ET BFSI, 2025), but could also lead to positive impacts on SMEs when pursuing these micro economic goals.

Next, we believe that coordination between banks and governments, alongside effective market research is crucial, given that bank lending behaviour changes are influenced by central bank fluctuations in policy rates. Since banks typically perceive SMEs as high risk, they usually charge far above the normal market rates (Bhat & Nayak, 2025), but effective coordination where government leaders could publicly urge banks to further simplify the SME credit lending process, as seen by the example of Mexico (Reuters Staff, 2025; AméricaEconomía, 2025), suggests that an increased level of advocacy and connection between banks and governments can act as effective tools. This is also emphasised through the example of Brazil, by the new administration (as part of the government) issued an executive order to renegotiate the interest on micro loans for MSMEs (Reuters Staff, 2024), and these situations/scenarios could also be implemented effectively within the economies of India and South Africa through similar programs, in conjunction with the pre-existing widespread use of monetary policy. Finally, we also believe that developing the financial market further and inclusion of individuals within these markets should be expanded further, given that relying solely on banks is often considered inefficient. This can be done through mechanisms such as promoting alternative channels for financing for SMEs, through other private institutions/organisations, and online Fintech platforms. In addition to this, the Organisation for Economic Cooperation and Development (OECD) also exclaimed that by increasing the range of different financial instruments to fund SME needs is one of the most effective and efficient manner of closing the credit gap (OECD, 2024).

Nevertheless, it is still important to note that despite these interventions, it is essential to be able to balance social enclosure with economic stability, and that the benefits of using contractionary monetary policy to balance the market economic objectives should not be less than the benefits gained from implementing the interventions above to boost SME growth and further stimulate the economy. By following these policy interventions and balancing them with other micro economic objectives/goals specific to the economies we believe that our analysis suggests that these reforms cannot only boost credit quality, but help to ease the pre-existing credit deficits. However, the effectiveness of these policy recommendations depends strongly on each of the countries regulating bodies, where the future implementation of these policies could be complicated due to the vast presence of numerous public sector banks and complicated regulations across different regions in each country, especially in India, alongside the potential for a highly concentrated oligopolistic banking sector with conservative lending aims, as in the case for South Africa, where commercial banks have been reluctant to lend to small Enterprises unless they are well collateralised.

VII. CONCLUSION

To recapitulate, our findings have reinforced the overarching message that monetary policy and financing for SME businesses are extremely well interconnected, especially in the case of emerging economies. By carrying out our empirical analysis and extensive literature review, we have examined that there exists an inverse relationship between repo rates and the amount of capital money spent on lending. In the case of India and South Africa, our cross country and comparative analysis has exclaimed that interest rate shocks are responsible for impacts and fluctuations in small business credit, as a result implying that central banks in these respective economies should not treat SME credit/lending has a separate factor when considering fiscal and monetary policy adjustments. In addition to this, the large credit card for SME financing makes it essential to carefully adjust the repo rate and also consider the possible heterogeneous impact, where each approach to setting the rate must consider how different small and large firms can respond differently (BIS Monetary and Economic Department, 2025). Collectively our results and literature implies that ignoring SMEs can have various consequences on the true effectiveness of monetary policy, given that ignoring such a large

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proportion of the total number of firms could be the responsiveness of economic agents. In turn, this could lead to a significantly reduced inclusivity (economically), since this undermines the aim of inclusive growth goals when prioritising economic growth. More broadly, it is important to recognise that expanding access to more affordable credit for such Enterprises can also lead to a growth in the real GDP and economic dividends as multiple studies by the IMF and Blancher et al. (2019) have shown. Moreover, helping to facilitate borrowing can also have ripple effects in boosting employment and overall productivity, since borrowing can allow firms to expand, invest in new technology, unemployed more workers, which could potentially lead to an increased productive potential, noting that SMEs are responsible for almost half of the jobs in both India and South Africa, as mentioned previously. However, a final caution to consider is necessary, of where excessive credit easing/lending can backfire, while providing extremely cheap finances can risk creating future long-term market failures and misallocation of capital resources, since public funds could be drained if SMEs may take funding for granted instead of growth.

Looking forward, though, there are some areas for future research, given that our study had some limitations of not being able to cover firm level and regional data, which could allow for gaining even more deeper insights, especially through even more models to enhance empirical analysis and econometric methods. Additionally, future studies could also explicitly model the relationship between demand side factors, such as the willingness of firms to borrow under periods of economic uncertainty/low confidence, with supply side factors, such as the credit policies by bank, and how they relate to impacting the overall SME credit gap (P Fouejieu et al., 2020). However, overall, we believe that our analysis was not only sufficient but expanded the suggestions and policies that central banks in India, South Africa, and relatively similar economies should implement and not ignore in order to prioritise the SME sector. By still complimenting fiscal, structural, and monetary policies with our policy recommendations, we believe that the SME segment can not only effectively grow, but also achieve market efficiency and financial stability, hence leading to a greater, more sustainable long-term economic growth for emerging economies.

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