



Original Research Article

MSMEs and budget 2025: A study exploring Indian entrepreneurial ecosystem through government initiatives

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Abstract

This study looks at how India's MSME sector will be impacted by the Budget 2025, highlighting the significance of government initiatives in fostering growth, innovation, and financial stability. Using secondary data from government and budget reports, industry surveys, and academic studies, examined the connection between budget expenditure and MSMEs. The results show that Budget 2025 includes significant measures to boost the viability and competitiveness of MSMEs, such as facilitating digitalization, making financing easier and constructing infrastructure. The initiatives are supposed to bring financial stability to MSMEs and promote their sustainable growth while developing the entrepreneurial environment of the country. This shows how important specific government initiatives and changes in the legislature are for the long-term success and development of MSMEs in India.

Keywords: Budget, Initiatives, Entrepreneur, MSME, Government, Resilience, India

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1. Introduction

Keeping the economic maintainers constantly in action remains Nirmala Sitharaman's forte, and with the Union Budget 2025, the new initiatives for the upliftment of Indian Micro, Small, and Medium Enterprises (MSMEs) have been launched. These are paramount for job creation and also provide a fertile ground for innovation, contributing nearly 45% of the country's exports. The government, through strategic planning, has addressed the importance of MSMEs in the 2025 budget. A landmark change has come in the form of enhanced classification for MSMEs, which obviously grants better access to government schemes and benefits on account of the doubling of limits in investment and turnover. More initiatives for better credit availability and wider guarantee coverage have also been promised, improving the chances of MSMEs for financing. A new program that offers term loans up to ₹ 2 crore over the next five years to 5 lakh women, Scheduled Castes (SC), and Scheduled Tribes (ST) entrepreneurs is an attempt to empower marginalized communities. Under the broader "Make in India" initiative,

the National Manufacturing Mission also supports the growth of both small and large industries. The "Made in India" initiative includes a specific plan to make India a global hub for toys, enhancing India's manufacturing capabilities. Together, these initiatives highlight supporting MSME expansion, encouraging innovation, and strengthening India's standing.

2. Review of Literature

The role of government assistance in MSME growth has been the subject of numerous studies. Past budgets, such as Budget 2020, were designed to focus on infrastructure development and credit provisions.

2.1. The union budgets of India and main contributions to MSMEs

The Ministry of Finance is tasked with the preparation of the annual financial plan of India, i.e., Union Budget or Annual Financial Statement, as laid down under Article 112 of the Indian Constitution. Essentially, the budget is a financial

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document wherein the Government of India specifies its current year estimated incomes, which is collected by the Department of Revenue, and also its expenditures, which are supposedly incurred through the Department of Expenditure.¹⁸ The budget, therefore, acts as a fiscal framework for the ensuing fiscal year by anticipating economic conditions and channelling government expenditure towards policy goals (Soji M Sebastian and Karunakaran N, 2020).³¹ Since independence, for a considerable period of Indian economic planning, the government concentrated on industrialization, self-sufficiency, and large public enterprises (Smitha E K and Karunakaran N, 2020).³⁰ But the MSME sector, traditionally approached as the backbone of the Indian economy, began receiving focused attention at a later date. Considering the role MSMEs play in employment creation, entrepreneurship promotion, and export enhancement, urgent measures favouring this sector have been made through several budgets in recent times.

2.2. Notable contributions to MSMEs

1. The 1991 Economic Reforms -marked a significant shift in India's economic policy, with Finance Minister Manmohan Singh emphasizing economic liberalization and market-oriented policies. Quoting French novelist Victor Hugo, Singh opened his maiden budget speech in July 1991 with the words, "No power on earth can stop an idea whose time has come." He went on to state, "Let the whole world hear it loud and clear. India is now awake. We shall prevail. We shall overcome," reflecting the transformative vision for India's future as a major economic power. While the early 1990s focused primarily on large-scale industries, the subsequent budgets began acknowledging the crucial role of MSMEs in fostering employment and innovation, particularly as liberalization policies took root (Devasia M D and Karunakaran N, 2020). These shifts in focus highlighted the growing recognition of MSMEs as integral to the nation's economic landscape, especially as the country moved toward liberalization, privatization, and globalization.^{5,7,28}
2. 2007 Budget - A Special Focus on MSMEs: In the 2007-08 Budget, P. Chidambaram, the finance minister, made notable provisions for MSMEs, including increasing the allocation for the Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE), aimed at providing better access to financing for MSMEs. Additionally, the budget provided for the creation of a separate Ministry for MSMEs, reflecting the sector's increasing importance in national policy (Rema R and Karunakaran N, 2019).^{6,24}
3. 2018 Budget - Increased Focus on Digital Transformation: The 2018 Union Budget, presented

by Arun Jaitley, allocated funds for the development of digital infrastructure to improve access to financial services for MSMEs, focusing on increasing credit accessibility and promoting technological innovation within the sector. This was aimed at fostering the growth of Digital MSMEs in India.¹⁵

4. 2020 Budget - Stimulus for MSMEs during Covid-19: The 2020 Budget included provisions that supported MSMEs during the Covid-19 pandemic, with enhanced credit facilities and guarantee schemes for MSME businesses that were struggling due to economic disruptions. The Atmanirbhar Bharat package, announced in 2020, focused on making MSMEs self-reliant by increasing access to finance, promoting ease of doing business, and simplifying the compliance process.
5. Budget 2025 - Innovative and Inclusive Policies: The Budget 2025 continues to build on these efforts by addressing challenges like access to finance, digital transformation, and marginalized entrepreneur support. Within the larger "Make in India" and "Atmanirbhar Bharat" initiatives, important initiatives include the introduction of financial schemes for women, SC, and ST entrepreneurs, increased credit guarantee coverage, and a focus on developing a global manufacturing hub for industries like toys.

2.3. Budgetary initiatives for MSME growth and inclusive development in FY 2025-26:

The MSME sector is a key focus of the Union Budget for FY 2025–2026, which aims to increase consumer demand, improve digital participation, and relax regulatory frameworks to promote inclusive development. MSMEs are essential to India's industrial development because they support decentralized industrialization, foster growth in rural and smaller towns, and form the foundation of the nation's industrial base and supply chain. MSMEs are essential to the Indian economy, employing 62% of the workforce, making up nearly 46% of exports, and contributing 30% of the country's GDP. Despite their importance, credit penetration is still low, and almost half of these businesses have a significant unmet credit demand. In order to address these issues, the Budget proposes a number of important measures, such as raising the Credit Guarantee Cover to ₹ 10 crore, creating micro business-specific credit cards, and offering term loans of up to ₹ 2 crore to first-time business owners, particularly women and members of SC/ST groups. Additionally, by streamlining regulatory frameworks and improving digital credit access, the Budget aims to promote technological and digital integration. With an emphasis on job creation and export expansion, it also offers sector-specific support for labour-intensive industries like food processing, leather, footwear, and toy manufacturing. Increased employment and economic growth, particularly in

rural areas, are anticipated as a result of these policies, which are also anticipated to empower marginalized entrepreneurs, expand India's export market, promote the adoption of digital solutions, and promote financial inclusion.

2.4. Government initiatives transforming the MSME sector

2.4.1. Credit guarantee fund trust for micro and small enterprises (CGTMSE)-2000

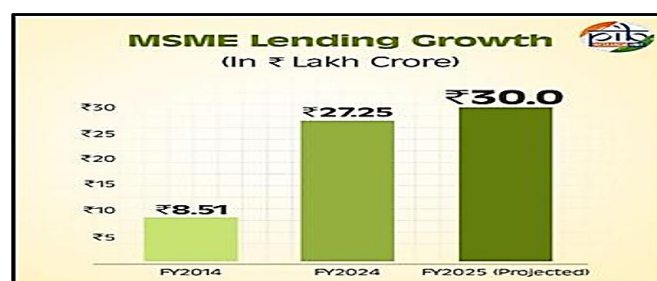
In order to improve credit access without third-party guarantees, this was created in August 2000 with the goal of giving MSEs collateral-free credit for loans up to ₹ 100 lakhs. By promising that CGTMSE will make up the difference if an MSE defaults on its financial commitments, the scheme reassures lenders. The fund is jointly supported by GOI and SIDBI, with contributions in a 4:1 ratio, and has grown to a corpus of ₹ 2419.955 crore, including ₹ 1935.97 crore from GOI and ₹ 483.985 crore from SIDBI. By December 31, 2015, CGTMSE had provided guarantee coverage for 21,60,975 credit applications, amounting to ₹ 103,864.11 crore. The scheme offers collateral-free credit facilities (term loans and working capital) to both new and existing MSEs, with a guarantee covering up to 75% for loans up to ₹ 50 lakhs, 85% for loans up to ₹ 5 lakhs to micro-enterprises, and 80% for women-owned or operated MSEs and units in the North Eastern Region (NER). For loans above ₹ 50 lakh and up to ₹ 100 lakhs, the guarantee is 50%. An annual guarantee fee is charged, ranging from 0.75% to 1.0%, depending on the loan size and beneficiary category.

2.4.2. PMEGP 2008

Launched in 2008, the Prime Minister's Employment Generation Programme (PMEGP) is a credit-linked subsidy scheme designed to foster employment through micro-enterprises, particularly in rural and urban areas. Its key objectives include promoting self-employment, assisting entrepreneurs in setting up businesses in manufacturing, services, and agro-processing sectors, and providing necessary financial support and subsidies. The scheme provides financial assistance through banks and financial institutions, with government subsidies tailored to the applicant's category—15% in urban areas for the general category, and up to 35% for SC/ST, OBC, and women applicants in rural areas. Eligible individuals, including youth, women, and marginalized groups, can avail of loans up to ₹ 25 lakh for manufacturing units and ₹ 10 lakh for service units, with repayment terms ranging from 3 to 7 years. By supporting micro-enterprises, encouraging inclusive growth, and encouraging sustainable business development with access to capital and technical know-how, PMEGP has made a substantial contribution to job creation, particularly in rural areas.

2.4.3. Mudra yojana 2015

As India marks the tenth anniversary of this flagship program, the International Monetary Fund (IMF) has continuously recognized the contribution of PMMY to increasing financial access and encouraging inclusive entrepreneurship in the nation. By eliminating the need for collateral and streamlining credit application processes, PMMY seeks to finance small businesses and unfunded microenterprises. This initiative has paved the way for a new era of grassroots entrepreneurship, empowering millions of micro-entrepreneurs to confidently seize opportunities, ranging from tiny tea stalls and stitching shops to salons, mechanic shops, and mobile repair businesses. PMMY supports the businesses that are the foundation of India's economy by providing institutional credit to small, non-corporate, and non-farm micro and enterprises. Fundamentally, the plan tells a tale of trust belief that even the most modest dreams should have a chance to succeed and faith in people's goals and capacity to create worthwhile enterprises (Figure 1).



Source: <https://pib.gov.in/>

Figure 1: MSME lending growth

The SBI report highlights a notable increase in credit flow to MSMEs, largely driven by the impact of Mudra. MSME lending grew from ₹ 8.51 lakh crore in FY14 to ₹ 27.25 lakh crore in FY 24, with projections indicating it will exceed ₹ 30 lakh crore in FY25. The share of MSME credit in total bank credit rose from 15.8% in FY14 to nearly 20% in FY24, underscoring its growing importance in the Indian economy. This expansion has enabled rural areas previously out of reach, thereby strengthening India's self-reliant economy and fostering grassroots job creation.

2.4.4. Startup India 2016

With more than 1.59 lakh start-ups approved by the Department for Promotion of Industry and Internal Trade (DPIIT) and driven by more than 100 unicorns, India has emerged as the world's third-largest start up ecosystem as of January 15, 2025. The development of India Stack, a comprehensive digital public infrastructure that has transformed industries like payments, identity verification, and e-governance and established India a scalable digital solutions, has been made possible by this thriving ecosystem, which is backed by government initiatives like Digital India.

With firms like Zomato, Nykaa, and Ola at the forefront, start ups in industries like fintech, edtech, health-tech, and e-commerce have not only solved regional problems but also achieved international recognition. The number of DPIIT-recognized start ups has surged from around 500 in 2016 to 1,59,157 in 2025, and by October 31, 2024, 73,151 of these start ups had at least one woman director, reflecting the rise of women entrepreneurs. Furthermore, these start ups have created over 16.6 lakh direct jobs from 2016 to October 2024, contributing significantly to employment generation and driving India's economic progress.

2.4.5. Atmanirbhar Bharat 2020

The Indian government rolled out the Aatmanirbhar Bharat initiative, which translates to "self-reliant India," aiming to position India as a more significant player in the global economy. This initiative focuses on creating resilient, competitive, and efficient policies that are sustainable and self-sufficient. The Atmanirbhar Bharat Abhiyan has played a crucial role in bolstering the growth and resilience of India's MSMEs, especially during the challenging times of the COVID-19 pandemic. It has provided extensive support in areas such as financial aid, easing regulations, and fostering innovation. Key financial initiatives, like the Subordinate Debt Scheme, equity support from the Self-Reliant India Fund, and collateral-free loans through the Emergency Credit Line Guarantee Scheme (ECLGS), have been vital in helping MSMEs maintain their cash flow and bounce back from financial difficulties. The action has come a game changer that has inspired study of new ideas and the relinquishment of the rearmost technology through the Technology Up gradation Fund Scheme(TUFS) among other while at the same time making the business processes easier with One Nation, One Registration and Start- up India. Moreover, the Vocal for Local campaign, the National MSME Export Promotion Council (NMEC) and TUFS, enhanced their competitiveness in the global arena. Special attention has been given to rural and regional MSMEs also and the establishment of MSME clusters to foster localized growth. The Stand-Up India Scheme has enabled women and other underprivileged groups to start up their businesses plays a significant part in the growth and job creation of India.

2.5. Understanding MSME Growth and the impact of budget 2025

Schumpeterian Theory (Schumpeter, 1934) emphasized the entrepreneur's role as an innovator, the Resource-Based View (RBV) developed by Barney (1991),³ highlights access to critical resources and Institutional Theory (North, 1990) suggests public policies and regulatory frameworks, shaped by formal and informal institutions, significantly impact MSME performance, with Budget 2025 continuing efforts to simplify compliance and provide financial support, improving the ease of doing business. The Growth Theory of SMEs initially propounded by Penrose in 1959 and expanded by Acs and Audretsch in 19901 emphasizes that policies

involving fiscal schemes, such as the CGTMSE, and market access to MSMEs truly adopt the internal and external resources of development in growing them. Buchanan's 1962 Public Choice theory on government interventions as tools for addressing market failures would also form useful reading.^{4,21,27}

2.6. Recent studies about budgets

Recent research has taken additional steps in examining the effects of government budget allocation on the entire operations and growth of MSMEs in India. Singh and Sharma (2024) mapped the connection between MSME performance and Budget 2024, Gupta and Patel's (2023)¹² reveals increased funding for infrastructure and skill development, and Kaur and Yadav (2023) studied specific budget allocation for women entrepreneurs. A case study of Budget 2022-2023 was done by Bansal and Jain (2022),² Renjith OK and Karunakaran N (2025) and Rao and Verma (2021)²³ measure the effect of Budget 2021 on MSME financial sustainability.^{10,17,25}

3. Research Gap

Numerous studies that emphasize historical trends and broad budgetary frameworks frequently fail to provide detailed analyses of specific recent policies. A detailed examination of financial distribution to MSMEs in India forms the central focus of this review. Prior investigations predominantly examined pre-2025 fiscal plans while discussing general themes such as credit access and MSME government support without exploring Budget 2025's specific measures. This paper bridge the gap by providing a comprehensive, focused analysis of the policy measures and budgetary provisions introduced in Budget 2025 and their potential impact on MSMEs.

4. Research Objectives

The main objectives include

1. To analyze the budgetary provisions made for MSMEs in Budget 2025, and
2. To explore the long-term implications of Budget 2025 on India's entrepreneurial ecosystem.

5. Research Methodology

This study employs a secondary data analysis approach, where data is collected from a variety of pre-existing sources to assess the impact of Budget 2025 on India's MSME sector. The primary sources of secondary data for this research include government reports, budget speeches, statistical data (Ministry of MSME, Reserve Bank of India), industry surveys, and academic papers that evaluate previous budget allocations and their outcomes on MSMEs. This data provides an in-depth understanding of the financial provisions, policy reforms, and initiatives introduced in Budget 2025 for this sector.²⁶

6. Analysis and Discussion

The Union Budget 2025-26 introduce a range of initiatives designed to booster the MSME sector, including enhanced access to credit, support for first-time entrepreneurs, and a focus on promoting labour-intensive industries. To help MSMEs scale their operations and access better resources, the Union Budget 2025-26 has significantly increased the investment and turnover limits for classification by 2.5 times and 2 times, respectively, which is expected to enhance efficiency, encourage technological adoption, and generate employment. The credit guarantee cover for micro and small enterprises has been raised from ₹ 5 crore to ₹ 10 crore, facilitating additional credit of ₹ 1.5 lakh crore over five years. Startups will benefit from an increase in their guarantee cover from ₹ 10 crore to ₹ 20 crore, with a reduced 1% fee for loans in 27 priority sectors.

New MSME Classification Criteria as per Union Budget 2025				
ENTERPRISE CATEGORY	CURRENT INVESTMENT LIMIT	REVISED INVESTMENT LIMIT	CURRENT TURNOVER LIMIT	REVISED TURNOVER LIMIT
MICRO ENTERPRISE	₹1 crore	₹2.5 crore	₹5 crore	₹10 crore
SMALL ENTERPRISE	₹10 crore	₹25 crore	₹50 crore	₹100 crore
MEDIUM ENTERPRISE	₹50 crore	₹125 crore	₹250 crore	₹500 crore

Figure 2: MSME classification criteria
Source: <https://pib.gov.in/>

The revised MSME classification (Figure 2) has significantly expanded eligibility criteria, enhancing opportunities for businesses at various stages of growth. More small businesses, including start-ups and home-based ventures, can now qualify for and have better access to government schemes and subsidies thanks to the increase in the investment limit for micro-enterprises to ₹ 2.5 crore and the turnover limit to ₹ 10 crore. This change also promotes growth and innovation by allowing aspiring business owners to upgrade plant and machinery or invest in technology without forfeiting the advantages associated with "micro" classification. Similar to this, the new thresholds for small businesses, which raise the investment and turnover limits to ₹ 25 crore and ₹ 100 crore, respectively, enable current companies to grow without having to move up to a higher bracket right away. This gives medium-level expansion—such as hiring more workers, expanding production capacity, and entering new markets—a longer growth runway before reclassification. Additionally, larger companies can continue to benefit from MSME advantages by attracting more domestic and foreign investments, increasing global competitiveness, and improving export potential thanks to the increased investment limit for medium-sized businesses to ₹ 125 crore and the turnover limit to ₹ 500 crore. Additionally, by strengthening the incentives for larger businesses to

remain in the MSME ecosystem, these changes promote stability and long-term growth. Term loans up to ₹ 20 crore with enhanced guarantee covers will be available to exporter MSMEs. A new customized Credit Card scheme will offer ₹ 5 lakh in credit to micro enterprises registered on the Udyam portal, with plans to issue 10 lakh cards in the first year. The budget also introduces a ₹ 10,000 crore Fund of Funds to expand support for start ups and a scheme aimed at providing term loans of up to ₹ 2 crore over five years for 5 lakh first-time women, Scheduled Caste, and Scheduled Tribe entrepreneurs, drawing from the success of the Stand-Up India scheme

6.1. Overview of the current landscape of MSMEs in India

In recent years, the sector has displayed remarkable resilience, with its share in the country’s Gross Value Added (GVA) increasing from 27.3% in 2020-21 to 29.6% in 2021-22 and 30.1% in 2022-23, highlighting its growing role in national economic output (Figure 3).

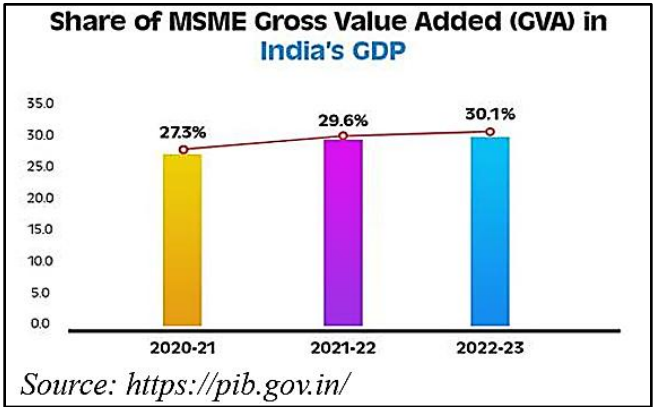


Figure 3: Share of MSME in GDP

The revised MSME classification has fostered several positive outcomes for the sector. By allowing enterprises to invest more in plant & machinery or equipment while maintaining MSME status, the government is encouraging modernization, technology adoption, and infrastructure improvements. The updated thresholds, with a higher turnover cap of ₹ 500 crore, enable medium-sized businesses to compete on global platforms, scale production, and access international markets without losing MSME benefits. Additionally, the expanded thresholds contribute to significant employment generation, especially in semi-urban and rural areas, as businesses can hire more staff, strengthening the domestic workforce. The simplified compliance and governance framework, as part of the new classification, reduces paperwork and enhances the ease of doing business, aligning with India’s broader economic reform objectives.

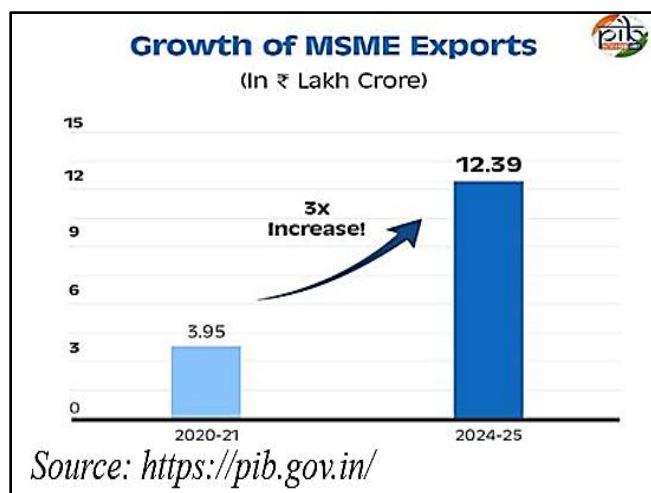


Figure 4: Growth of MSME export

A notable trend is the consistent increase in exports from MSMEs (figure 4), which has grown substantially in recent years. From ₹ 3.95 lakh crore in 2020-21, MSME exports surged to ₹ 12.39 lakh crore in 2024-25. This growth reflects the growing international demand for products manufactured by Indian MSMEs, particularly in sectors such as textiles, engineering goods, and handicrafts. Additionally, the number of MSMEs involved in exports has expanded significantly, increasing from 52,849 in 2020-21 to 1,73,350 in 2024-25. This sharp rise indicates a larger base of MSMEs tapping into global markets, aided by various government initiatives like the Export Credit Guarantee Corporation (ECGC), which provides credit insurance, and the Special Economic Zones (SEZ) policy that facilitates export-oriented businesses. The increased focus on digitalization, trade facilitation measures, and access to export-related information has further empowered MSMEs to reach international markets. Government policies aimed at boosting MSME competitiveness, such as tax incentives and easier access to credit, have also supported this growth.¹⁴

7. Research Findings

The results of the study show that the actions taken by the Union Government have greatly improved MSMEs' access to financing, with increased credit availability supporting their expansion and technological expenditures. By encouraging marginalized groups to start and grow their businesses, provisions aimed at women and SC/ST entrepreneurs have promoted inclusive industrial growth. With reduced customs taxes on essential manufacturing inputs, policies meant to bolster India's export base have also helped MSME participation in the "Make in India" campaign. The government's initiative to help MSMEs go digital has sped up the adoption of fintech and digital solutions, increasing market reach and operational efficiency. Additionally, the focus on labour-intensive industries has increased the creation of jobs, particularly in tier-II cities and rural areas, which has further boosted regional economic growth. These findings demonstrate the government's targeted approach to strengthening MSMEs and driving inclusive growth in India.^{13,16}

8. Conclusion

The strategic actions taken by the Union Government have been crucial in revolutionizing the MSME sector in India and promoting inclusivity and growth. The rise in access to credit has really made a difference in financial inclusion, allowing MSMEs to expand and invest in new technologies. Plus, the special provisions for women and SC/ST entrepreneurs have helped create a more inclusive industrial landscape. Today, MSMEs are key players in the manufacturing sector, driving the "Make in India" initiative and supporting the government's goal of boosting India's exports. The push for digitalization has also enhanced the efficiency of MSMEs, making them more competitive in the marketplace. By focusing on labour-intensive industries, it is seen a significant boost in regional economic growth, especially in tier-II cities and rural areas. All these initiatives reflect the government's forward-thinking approach to empower MSMEs, enhance their global competitiveness, and promote inclusive growth across India.^{8,9,11}

9. Recommendations

It's important for the government to focus on simplifying the loan disbursement processes so that MSMEs can more easily access the financial resources they need. Access to much-needed funding for small and medium-sized businesses is often delayed by the current system's protracted approval procedures, bureaucratic roadblocks, and intricate paperwork. By streamlining the process, the government can ensure that loans are disbursed more efficiently, allowing businesses to get funding quickly and seize growth opportunities. Simplifying the procedures would also encourage more MSMEs to apply for loans, particularly those that are just getting started or are hesitant due to the burdensome paperwork. By automating and expediting loan applications, approvals, and disbursements, digital platforms and fintech solutions can boost productivity. This will decrease the need for human intervention and ensuring timely and transparent fund allocation will not only improve the liquidity position of MSMEs but also enhance their ability to invest in technology, expand their operations, and generate employment, ultimately driving sustained economic growth.^{20,21,29,32}

10. Limitations of the Study

This is primarily based on secondary data analysis, which inherently comes with certain limitations. Secondary data, while useful in providing historical insights and trends, may not fully capture the most recent developments or provide a real-time perspective on the effectiveness of the government's initiatives outlined in Budget 2025. Given that government policies and budgetary provisions are subject to continuous revisions, the data available at the time of this study may not reflect the latest changes or practical outcomes.

Additionally, secondary data sources such as government reports, industry surveys, and academic papers often focus on broader trends and may lack detailed, context-specific information on the challenges faced by individual

MSMEs or on the localized impacts of specific initiatives. This limits the ability to capture the nuanced experiences and real-world challenges of MSMEs at the ground level, especially in diverse regions of India.

11. Scope for Future Research

Future research could explore several dimensions to further understand the impact of Budget 2025 on MSMEs. One potential avenue is conducting a regional analysis to assess the effectiveness of the budgetary initiatives in different states of India, considering the diverse economic landscapes and challenges faced by MSMEs in various regions. This gives valuable insights into the differential impact of the policies, enabling targeted interventions for regions that may need more focused support. Additionally, it can examine the long-term effects of the budgetary provisions, tracking the growth, sustainability, and resilience of MSMEs over several years. Such studies could assess whether the initiatives introduced in Budget 2025 lead to sustained improvements in financial access, innovation, and overall competitiveness in the sector. Also, there is scope to explore the role of emerging technologies in MSME growth and how future budgets might support digital transformation initiatives in the sector.

12. Source of Funding

None.

13. Conflict of Interest

None.

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