A Study on Impact of MSMEs Growth on Economic Development in India

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Abstract— The growth of Micro small and medium (MSMEs) enterprises play a critical role in shaping india's economic development. This study examines how MSMEs expansion contributes to key economic indicators such as GDP, GNI, employment generation and per capita GDP. the MSME sector significantly boost national output by supporting manufacturing, service and export, thereby rising india's GDP and strengthening its GNP through value creation and increased productivity. MSMEs also serve a major source of employment, particularly in rural and semi-urban regions, helping reduce poverty and improve living standards. As job creation and income level rise, per-capita GDP also shows sustained improvement. However, the sector continues to face challenges related to inadequate credit access, limited technology adoption, infrastructural constraints and regulatory complexities. The study conclude that strengthening policy support, enhancing financial inclusion and promoting digital and technological upgrades are essential to maximize MSME contributions and ensure robust, inclusive economic development in india.

Keywords— Economic growth, Export, GDP, GNI, Import, MSME, per capita GDP, etc.

I. INTRODUCTION

Micro, Small and Medium Enterprises (MSMEs) constitute one of the most dynamic and vibrant sector of indian economy. Often described as the backbone of national economic progress, MSMEs significantly contribute to industrial output, employment generation, export and rational development. With india's transition towards a more diversified and innovation driven economy, the role of MSMEs has become even more crucial in promoting inclusive and sustainable growth. Their ability to operate with flexible structures, adopt local resources, stimulates entrepreneurship, and generate large scale employment positions them as a key driver of economic development. The relevance of MSMEs extend beyond traditional manufacturing to encompasses services, Digital enterprises and emerging technology-driven ventures.

As the economy expand, the contribution of MSMEs to gross domestic product (GDP), gross national income (GNI) and per capita income steadily increased. The sector supports millions of livelihoods, particularly in rural and semi-urban areas, thus contributing to poverty reduction and balanced regional growth. Thereby strengthening national income and improving living standards. Despites their significance, MSMEs in India encounter persistent challenges including limited access to credit, insufficient technological adoption, infrastructural gaps and regulatory complexities. These constraints often restrict their competitiveness and growth potential. Recognizing these challenges, various government initiatives – such as Make In India, Digital MSME, Udaym Registration and credit linked support schemes – aim to promote the sector's modernization and resilience. This study aims to analyze how MSME expansion influences major economic indicator such as GDP, GNI, employment generation and per capita GDP, while also highlighting the constraints that hinder their performance. Understanding these linkage will help formulate effective strategies to strengthen the sector and foster inclusive sustainable economic development across the country

II. LITERATURE REVIEW

Tirkey M.R. (2012) this study shows that small and medium enterprises (SME)- precursor of today's MSMEs definition were already by 2009-10 contributing significantly to manufacturing output and exports, and providing employment to millions.

Saini p. & co-authors (2013) this report emphasised MSMEs role in inclusive growth, their capacity to generate widespread employment with relatively low capital, and need for structural report (finance, infrastructure) for MSME expansion.

Zanjurne P. (2018) the study reaffirmed that MSMEs contribution substantially to industrial production, exports, employments and overall economic growth. It underlines MSMEs backbone status for India's economy.

Kukar & Mehta (2024) The authors emphasise MSMEs as a crucial sector for economic development, especially in developing countries like India, where they regulate economic activity, generate employment with lower capital, stimulate industrial growth in rural areas.

Pandey & Chaudhary (2024) this study provides a comprehensive evaluation of key economic indicator employment, GDP, exports, FDI and shows how MSME growth correlates with these macroeconomics outcomes. The authors highlight that government schemes e.g. SFURTI, PMEGP, ASPIRE.

Varalakshmi (2025) this very recent work (using data 2015-2024) examines how flagship schemes like Pradhan Mantri Mudra Yojna (PMMY), credit guarantee fund trust for micro and small enterprises (CGTMSE) and prime minister employment generation program (PMEGP) improved credit access- which helped MSMEs expand create employment and contribute to inclusive economic growth.

Das & Chowdhury (2025) based on data from 2011-12 to 2018-19, this paper find a positive relationship the no of MSMEs employment generation and economic development (GDP and GVA growth). The study also notes fluctuations in MSME share in GDP/GVA over the period.

III. OBJECTIVE OF THE STUDY

1. To study about impact of the MSME growth on economic development in India.
2. To analyze the impact of MSME growth on key economic indicators such as GDP, GNI, per capita GDP and employment generation in India.

IV. RESEARCH METHODOLOGY

Research design: I used descriptive research design for this study.

Data collection: Secondary data are used for this study which are collected from Internet websites reports, research publication, newspaper etc.

Study period: 5 years which is from 1-04-2019 to 31-03-2024.

Statistical Tools for study: Correlation and T-test Used for this study.

V. LIMITATIONS OF THE STUDY

The study is limited by the availability and reliability of MSME data across states which may affect the accuracy of its assessment of their impact on India's economic development. The contribution of MSMEs to economic indicators like GDP and employment might take years to manifest itself, and hence short-term analysis might not be decisive. Although the analysis depicts the positive contribution of MSMEs to the Indian economy, it has some limitations in data coverage, methodology, and policy analysis, which must be overcome in future research for a more comprehensive analysis.

VI. HYPOTHESIS TESTING

H_0: There is no significant relationship between MSMEs & GDP growth of India.

H_0: There is no significant relationship between MSMEs and GNI of Indian economy.

H_0: There is no significant relationship between no of MSMEs and employment generation in India.

H_0: There is no significant relationship between MSMEs and import of Indian economy.

H_0: There is no significant relationship between MSMEs and exports of Indian economy.

H_0: There is no significant relationship between MSMEs and per capita GDP of Indian economy.

Data Analysis and Interpretations

H_0: There is no significant relationship between MSMEs & GDP growth of India

Table 1:
No of MSMEs & GDP at current price

year	No of MSMEs	GDP at current price (Rs in cr.)
2020	2847544	20339849
2021	5147993	19745670
2022	8582179	23664637
2023	15027865	27240712
2024	24912943	29535667

Results:

Parameter	Value
Pearson correlation coefficient (r)	0.9599
r^2	0.9213
P-value	0.009598
Covariance	36364273824045.5
Sample size (n)	5
Statistic	5.927

Results of the Pearson correlation indicated that there is a significant large positive relationship between X and Y, ($r(3) = 0.9599, p=0.009598$). **r** = 0.9599 T value 5.93058420 Df=3

On the basis of findings The t-value calculated (5.93058420) is greater than the critical t-value (3.182). The p-value (0.009598) is significantly lower than the 0.05 significance level Thus, my inference is that there is a statistically significant correlation between GDP growth and MSMEs growth in India. That is, the evidence strongly indicates that MSMEs performance or growth is strongly correlated with GDP growth in India. we reject the null hypothesis, thus confirming alternative hypothesis.

H0: There is no significant relationship between no of MSMEs & GNI of Indian economy

Table 2:
No of MSMEs & GNI at current price

YEAR	No of MSMEs	GNI at current price (Rs in cr.)
2020	2847544	20118353
2021	5147993	19561348
2022	8582179	23296345
2023	15027865	27240712
2024	24912943	29104354

Results

Parameter	Value
Pearson correlation coefficient (r)	0.954
r^2	0.9101
P-value	0.01177
Covariance	35899302255828.85
Sample size (n)	5
Statistic	5.5095

Results of the Pearson correlation indicated that there is a significant large positive relationship between X and Y, ($r(3) = .954$, $p = .01177$). r = 0.954 t-value 5.51147455

The result indicates a very strong positive correlation between Gross National Income (GNI) and MSMEs growth in the Indian economy: The Pearson correlation coefficient (r) 0.954 signifies a very strong positive correlation. t-value =5.51147455

H0=There is no significant relationship between no of MSMEs and employment generation in India.

Table 3:
No of MSMEs & Employment generation

year	No of MSMEs	No of reported jobs (in cr.)
2020	2847544	2.73
2021	5147993	3.50
2022	8582179	4.60
2023	15027865	7.44
2024	24912943	23.14

Results

Parameter	Value
Pearson correlation coefficient (r)	0.9453
r^2	0.8936
P-value	0.01523
Covariance	713690487180000
Sample size (n)	5
Statistic	5.019

Results of the Pearson correlation indicated that there is a significant large positive relationship between X and Y, (r(3) = .9453, p = .01523). r = 0.9453 t-value 5.01930202

Results of the Pearson correlation test indicated a significant, strong positive relationship between the number of MSMEs and employment generation in India, **r(3) = .9453, p = .01523**. The corresponding t-test (t = 5.01930202) exceeded the critical value for df = 3 (t$_($ critical$_)$ ≈ 3.182), confirming that the correlation is statistically significant. This means we reject the null hypothesis (which assumes no relationship between the number of MSMEs and employment generation in India) Therefore, there is a significant relationship between the number of MSMEs and employment generation in India.

H0: There is no significant relationship between no of MSMEs & import of Indian economy.

TABLE 4:
NO OF MSMES & IMPORTS

year	No of MSMEs	Imports (Rs In Cr.)
2020	2847544	3360954
2021	5147993	2915958
2022	8582179	4572775
2023	15027865	5749801
2024	24912943	5592877

Results

Parameter	Value
Pearson correlation coefficient (r)	0.8511
r²	0.7244
P-value	0.0674
Covariance	9678121421004.75
Sample size (n)	5
Statistic	2.808

Results of the Pearson correlation indicated that there is a non significant large positive relationship between X and Y, (r(3) = .8511, p = .0674).

t-value =2.80788249 < critical t-value 3.182

Since the calculated t-value is less than the critical value, we fail to reject the null hypothesis (H$_0$). This indicates that, despite a strong positive correlation, the relationship between the number of MSMEs and imports is not statistically significant at the 5% level.

H0: There is no significant relationship between no of MSMEs & export of Indian economy.

Table 5:
No of MSMEs & Exports

year	No of MSMEs	Exports (Rs In Cr)
2020	2847544	2219854
2021	5147993	2159043
2022	8582179	3147021
2023	15027865	3621550
2024	24912943	3619292

Results

Parameter	Value
Pearson correlation coefficient (r)	0.8594
r²	0.7386
P-value	0.06191
Covariance	5529112905673.001
Sample size (n)	5
Statistic	2.9116

Results of the Pearson correlation indicated that there is a non-significant large positive relationship between X and Y, (r (3) = .8594, p = .06191).

t- value 2.91123258< critical t- value 3.182

There is a large positive correlation between MSMEs and exports (r = 0.8594), indicating that exports tend to increase as the number of MSMEs increases. However, the correlation is not statistically significant (t = 2.9116, df = 3, p = 0.06191), meaning we cannot confidently conclude a real relationship exists. Therefore, the null hypothesis is retained.

H0: There is no significant relationship between No of MSMEs and per capita GDP of Indian economy.

Table 6:
No of MSMEs & per capita GDP

year	No of MSMEs	per capita GDP
2020	2847544	149915
2021	5147993	146480
2022	8582179	172422
2023	15027865	194879
2024	24912943	211725

Results

Parameter	Value
Pearson correlation coefficient (r)	0.9644
r^2	0.93
P-value	0.008035
Covariance	242132910306.8
Sample size (n)	5
Statistic	6.3125

Results of the Pearson correlation indicated that there is a significant large positive relationship between X and Y, ($r(3) = .9644$, $p = .008035$). r = 0.9644 df=3

critical value 3.182< t-value-6.31651988

Since the calculated t-value is greater than the critical t-value, we reject the null hypothesis (H_0). The correlation is statistically significant, confirming that the relationship between MSMEs and per capita GDP is real and not due to chance. There is a very strong positive relationship between the number of MSMEs and per capita GDP.As the number of MSMEs increases, per capita GDP also increases. This supports the alternative hypothesis (H_1) that a real positive association exists. The correlation is significant (t = 6.3125, df = 3, p = 0.008035).

VII. FINDINGS

The study demonstrates that the growth of Micro, Small, and Medium Enterprises (MSMEs) in India has a substantial and positive impact on the country's economic development. Statistical analysis reveals strong and significant correlations between MSME growth and key economic indicators such as GDP, GNI, employment generation, and per capita GDP, confirming that MSMEs are crucial drivers of inclusive growth and poverty reduction.

While MSME growth also shows a positive relationship with exports and imports, these correlations are not statistically significant, indicating potential areas for policy support to enhance global trade integration. Overall, the findings highlight that MSMEs not only contribute to national income and job creation but also foster entrepreneurship, regional development, and livelihood opportunities, reinforcing their role as the backbone of India's economy.

VIII. SUGGESTIONS

1. Generate large-scale employment, especially in rural and semi-urban areas.
2. Contribute significantly to GDP, GNI, and per capita income.
3. Reduce poverty and promote inclusive economic growth.
4. Stimulate entrepreneurship and local business development.
5. Support balanced regional development and livelihood opportunities.
6. Enhance export capacity and integrate India into global markets.

IX. CONTRIBUTION TO THE SOCIETY

The analysis shows significant relationship between MSMEs and key economic indicators such as GDP, GNI, per capita GDP, exports, or employment generation, MSMEs contribute to society by supporting local entrepreneurship, sustaining small- scale livelihoods, and promoting regional economic activity. Their presence helps maintain community-level economic stability and fosters innovation and self- employment, indicating that their societal impact may be more qualitative and long- term rather than immediately reflected in macroeconomic measures.

X. CONCLUSION

The study clearly demonstrates that the growth of Micro, Small, and Medium Enterprises (MSMEs) in India has a substantial and positive impact on the country's economic development. Statistical analysis reveals strong and significant correlations between MSME expansion and key economic indicators such as GDP, GNI, per capita GDP, and employment generation, confirming that MSMEs are crucial drivers of inclusive growth. While their contribution to exports and imports shows a positive trend, it is not statistically significant, indicating potential areas for further policy support.

Overall, MSMEs act as a backbone of the Indian economy, fostering entrepreneurship, and regional development**.**

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