Monetary Policy, Bank Behaviour and Effect on Micro and Small Start Ups

Mr. Mrityunjaya B Chavannavar[1],
[1]Assistant Professor, Chetan Business School, Hubballi.
Dr. S. C. Patil[2]
[2]Associate Professor, Dept. of Management Studies, RCU Belagavi.

Abstract: Start ups face major challenges in terms of high cost of credit and credit availability in India. Contarctionary monetary policy has an effect on industrial activity as well on start ups. Start ups may find it difficult to obtain credit for their operations during the tight monetary policy. Monetary tightening makes banks to reduce lending. Hence any monetary policy impact to the banking system will have substantial impact on credit supply to small businesses. Start ups hold back investments in plant and machinery which will result into lower credit demand for projects due to high or increase in interest rates. Investment activities in start ups slow down due to inadequate credit disbursals from the banks. Higher interest cost levied on loans borrowed from the banks and inadequate credit will affect the earning before tax and profit margins. Hence lower or insufficient profits obstruct the growth of the start ups. A conducive environment for the growth of these start ups is required where adequate loan at lower interest rates from banks is accessible. Hence expansionary monetary policy is found to be favourable for start ups where adequate money is available in banking system to lend at cheaper interest costs.

Introduction:

Startup means an entity, incorporated or registered in India upto a period of seven years from the date of incorporation/registration or upto ten years in case of Startups in Biotechnology sector. The annual turnover should not exceede Rs. 25 crore for any of the financial years since incorporation/registration. Up to April 2018, 9042 units got start up recognition in India. Out of these funding support was given to only 99 units. Start ups in India face competition from imported products (MNCs) as well as large domestic manufacturers. Indian Start ups face multiple challenges in terms of infrastructure, logistics, cost of credit, availability of credit and availability of technology which affects their cost competitiveness. Yes there are lot many schemes which Government of India has introduced to protect the start ups from risk but it is not adequate. This paper throws light on effect of inadequate credit availability and high cost of credit during contractionary monetary policy.

Monetary policy of any country refers to the regulatory policy, whereby the monetary authority maintains its control over the supply of money for the realization of general economic objectives, such as stability of employment and prices. This involves manipulation of the supply of money, the level and structure of interest rates and other conditions affecting the availability of credit. However in the context of developing economies like India, monetary policy acquires still wider role and it has to be designed to meet particular requirements of the economy. This involves not merely the restriction of credit expansion to curb inflation, but also the provision of adequate funds to meet the legitimate requirements of the industry and trade & curbing the use of credit for unproductive and speculative purposes.

The tightening of money supply and increasing interest rates has an effect on industrial activities. A expansionary monetary policy is found to be good for the economical growth and contractionary monetary policy on the other side is affects economic growth. Higher interest rates on loans and inadequate money supply during the contractionary monetary policy will bear an effect on start ups performance and growth.

Even after Reserve bank of India reducing key policy rates and following a expansionary monetary policy stance from FY 2015 and key policy rates presently kept at lower levels, still there are voices raised from the industry bodies like FICCI and Assocham to reduce interest rates. Here an attempt is made to understand whether higher interest rates and inadequate credit availability due to monetary policy changes have an effect on start ups.

Literature Review:

Generally Monetary policy implementation involves, defining an operational target, generally an interest rate; and setting a policy rate which could influence the operational target. Central banks used to influence money supply through varying required reserves. The ultimate objectives are price stability, growth and financial stability. The main transmission channel, however, is the commercial interest rate channel whereby change in the policy interest rate impacts deposits and lending rates of financial institutions, and alters the spending and investment decisions of households and businesses [Deepak Mohanty (2011)]. The monetary policy transmission mechanism works through both interest rate and broad credit channels in influencing firms' investment spending [Zulkefly Abdul Karim (2012)]. Expansionary monetary is favourable for firms as the banks would be given an opportunity to lend at lower interest rates since the money available with banks to lend is more. At the same time Contractionay monetary policy would hamper the performance of the industries as the credit availability is going to be tight and the interest rates on loans would be higher. This contractionary monetary policy will discourage the investment activities of the enterprises. Small enterprises may find it difficult to obtain credit for their operations during the tight monetary policy. Monetary tightening makes banks to reduce lending. Hence any monetary policy impact to the banking system will have substantial impact on credit supply to small businesses. Decline in credit worthiness due to monetary tightening make small businesses more difficult to obtain bank loans [Allen N. Berger and Gregory F. Udell (2002)]. Constrained banks tend to reduce their risky loan portfolio following upon monetary contraction. In response to the interest rate shock constrained banks increase credit disbursal to less risky borrowers and decrease credit disbursal to risky borrowers [Saibal Ghosh (2008)]. As the small firms are more reliant on bank loans these firms are more sensitive and change their loan portfolio. It is also revealed that small firms are more able to get long term loan than short term loan from banks during tight money periods. Where in banks prefer to lend short term loans during the periods of tight money [James W. Christian and Warren F. Mazek (1969)]. The monetary policy has a significant effect on the interest rate in the informal credit market also. A contractionary credit policy raises interest rates in informal credit market and the expansionary policy decrease the interest rates in the informal credit market [Shankar Acharya and Srinivas Madhur (1984)]. During insufficient credit availability from banks small firms may tap informal credit market. Industries with higher interest cost in total production are expected to be affected with rise in interest rates. Industries which invest heavily are going to be impacted harshly with negative monetary shock. Industries which are already burdened with loans are expected to face greater difficulty in obtaining additional funds from the market [Saibal Ghosh (2009)]. It is noticed that higher interest rates limit the ability to borrow which lead to contraction in investment. Monetary policy influences interest rates which intern influences the profitability of the investment [Sherman J. Maisel (1968)]. After tight money policy, small firms decline sharply in terms of sales, when compared to large firms. Small firms appered to reduce the stock and borrowings significantly. They found that credit flow to small firms reduces when compared with large firms after tight money [Mark Gertler and Simon Gilchrist (1994)]. It is also understood that Monetary policy variables can influence the volume of trade credit by influencing the length of the trade credit period [L M Bhole (1984)]. It is noticed that the profit margins will get affected due to higher interest costs and increase the probability of loan defaults [Bawuah Bernard, Yakubu Awudu Sare, Alhassan Musah (2014)]. Shortage of working capital funds and inadequate credit availability from banks and financial institutions are the reasons for sickness and closure of firms [Bhushan Chandra Das, K.S.Chakraborty, Raveesh K]. Availability of adequate amount of finance is a major concern for small firms. Liquidity ratio requirements imposed on banks and chronic fiscal deficits can completely invert the monetary transmission mechanism. The reduction in the deposit base that is induced by a fall in the interest rate then forces a reduction of loans to the private sector as well [Amartya Lahiri and Urjit R. Patel (2016)]. Government has adapted several policy measures to increase the flow of credit to SME sector but is too early to conclude that small firms in India are not financially constrained [Ashok Thampy (2010)].

Need For The Study:

Expansionary monetary is favourable for firms as the banks would be given an opportunity to lend at lower interest rates since the money available with them to lend is more. At the same time Contractionay monetary policy would hamper the performance of the industries as the credit availability is going to be tight and the interest rates on loans would be higher. This contractionary monetary policy will discourage the investment activities of the enterprises. Start ups may find it difficult to obtain credit for their operations during the tight monetary policy. Monetary tightening makes banks to reduce lending. Hence any monetary policy impact to the banking system will have substantial impact on credit supply to small businesses. Ability of small entrepreneurs to withstand monetary policy shocks is extremely limited and hence availability of timely credit becomes critical for their survival. Start ups faces a major problem in terms of getting adequate credit for expansion of business activities. Latest data on credit disbursed by banks shows that out of a total outstanding credit of Rs 26041 billion as on November 2017, 82.6 per cent of the amount was lent to large enterprises. The MSME sector received only 17.4 per cent of the total credit outstanding. Growth of credit to Micro and Small enterprises increased by 4.6 per cent, while credit to Medium enterprises decreased by 8.3 per cent. Growth of credit to medium scale industries has remained negative since June 2015[2]. ……………………………………..

If we look at the credit outlay planned for MSMEs for Dharwad district and actual credit disbursed to MSMEs for the years from 2007-08 to 2012-13, the actual credit disbursed was less than the credit outlay which was planned[3]. This raised the question in the mind that whether there was inadequate credit disbursed to MSMEs even there was demand from MSMEs because banks were not able to meet the demand or whether the demand for the loans was less due to higher interest rates during the period. Since start ups form a part of MSMEs, its amatter of concern which has to be addressed.

There were demands for interest rate cuts to boost growth of economy from industry bodies such as FICCI and Assocham. They said that the investment activity has slowed down and there is need for rate cuts; but RBI policy statement cites inflationary pressures to remain a concern. But it is RBI which should take a bold move cut rates and free bank funds for lending as said by Assocham[4].

Evidences from literature shows that Monetary policy has an effect on small industries. Hence there is need to understand whether the banks disburse inadequate loan amount and high cost loans during contractionary monetary policy. Whether higher interest on loans and insufficient credit disbursals from the banks will make start ups to go into trouble and hinder the growth of these enterprises is to be understood.

Objectives:

1. To study how banks respond to Contractionary & Expansionary Monetary policy measures.
2. To study the effect of bank behaviour on start ups due to monetary policy measures.

Hypotheses:

The following hypotheses have been formulated to know the opinion of Bank Managers on Monetary policy effect on start ups is neutral.

H_0 : Bank lending to start ups won't change depending upon different monetary policy conditions.

H_1 : Bank lending to start ups change depending upon different monetary policy conditions.

H_0 : Banks won't face shortage of funds to lend to start ups during contractionary monetary policy.

H_1 : Banks face shortage of funds to lend to start ups during contractionary monetary policy.

H_0 : Expansionary monetary policy won't increase bank reserves and lending to start ups.

H_1 : Expansionary monetary policy increases bank reserves and lending to start ups.

H_0 : Demand for projects by start ups don't go up during contractionary monetary policy when loans are available at higher interest rates.

H_1 : Demand for projects by start ups go up during contractionary monetary policy when loans are available at higher interest rates.

H_0 : Higher interest rates won't affect performance of start ups

H_1 : Higher interest rates affect performance of start ups

Scope Of The Study:

The research is restricted to start ups of Dharwad district region which have been registered with District Industrial Centre (DIC) under UAM. The study is focused on effect of changes in bank lending on start ups due to Monetary policy changes. The feed back is taken from 17 Regional Bank Mangers or Chief Mangaers of SME section who have experience on lending to start ups.

Data Base And Methodology:

To understand the bank behaviour during monetary policy changes and its effect on start ups, feedback from Regional or Chief managers of SME section is collected through a self administered questionnaire. To collect feedback, 17 out of total 36 Scheduled Commercial Banks located in Dharwad district were considered (Credit outlay report 2017-18). Validation of questionnaire was successfully carried out by achieving 0.80 Chronbach Alpha. The survey is conducted between September 2017 to January 2018. t-test is used for the analysis and graphs and tables are used to draw the inferences wherever required.

Analysis And Interpretation:

Table 1: The importance of interest rate at which start ups borrow from the banks

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Nuetral	1	5.9	5.9	5.9
	Agree	5	29.4	29.4	35.3
	Strongly Agree	11	64.7	64.7	100.0
	Total	17	100.0	100.0	

Interpretation:

As per the graph it is understood that 64.7% of the respondents strongly agreed that interest rate is an important consideration for start ups and 29.4% of them agreed. Only 1 respondent (5.9%) had a neutral opinion on this. The t-test results at 5% level of significance indicate that H_0 is rejected (t = 10.59, df = 16, p = .00). Start ups look at interest rate and take decisions about whether to go for loan or not to depending upon the return on investment. If the interest rates are higher, they try to look at cheaper sources of finance like family, friends and relatives.

Table 2: Changes in bank lending to MSMEsdue to different monetary policy conditions

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	1	5.9	5.9	5.9
	Nuetral	1	5.9	5.9	11.8
	Agree	6	35.3	35.3	47.1
	Strongly Agree	9	52.9	52.9	100.0
	Total	17	100.0	100.0	

Interpretation:

It is understood from the graph that 52.9% of the respondents have strongly agreed and 29.4% have agreed that lending decisions of banks depend upon different monetary policy conditions. Hardly 11.8% of the respondents disagreed to the statement. The t-test results at 5% level of significance indicate that H_0 is rejected (t = 4.093, df=16, p= .001). Hence different monetary policy conditions have influence on lending decisions of the banks. Depending upon the contractionary or expansionary policy the loans are disbursed to the start ups.

Table 3: During contractionay monetary policy (During periods of higher interest rates and tight credit availability) whether banks face any shortage of funds to lend to start ups.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	3	17.6	17.6	17.6
	Disagree	2	11.8	11.8	29.4
	Nuetral	2	11.8	11.8	41.2
	Agree	8	47.1	47.1	88.2
	Strongly Agree	2	11.8	11.8	100.0
	Total	17	100.0	100.0	

Interpretation:

It is understood from the graph that 47.1% of the respondents agreed that they face shortage of funds to lend to Start ups during contractionay monetary policy and 11.8% of them strongly agreed for the statement. 29.4% of the respondents are of the view that the do not face shortage of funds during contractionary monetary policy. The t-test results at 5% level of significance indicate that H_0 is rejected (t = 9.89, df=16, p= .00). During contractionay monetary policy banks face shortage of funds to lend to start ups. Lending activity to start ups decreases during tight money and the loan rates will be higher. It is found that banks collect money in the form of deposits or raise capital from other sources to meet the requirement or the shortage.

Table 4: During contractionay monetary policy (During periods of higher interest rates and reserves requirements are high), whether banks disburse loans to selective borrowers, who have high credit repayment capacity.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	1	5.9	5.9	5.9
	Disagree	3	17.6	17.6	23.5
	Nuetral	6	35.3	35.3	58.8
	Agree	5	29.4	29.4	88.2
	Strongly Agree	2	11.8	11.8	100.0
	Total	17	100.0	100.0	

Interpretation:
From the above graph it is noticed that 29.4% of the respondents agreed that they disburse loans to selective start ups who have high credit repayment capacity. 11.8% respondents strongly agreed for the statement. It is 17.6% of the respondents who have disagreed to the statement. Hardly 5.9% of the respondents strongly denied the statement and said that they don't go for selective lending. Hence it is interpretted as 41.2% of the respondents have conservative approach while lending to start ups during contractionay monetary policy as these are considered to be risky. 23.5% of the respondents view is that during contractionay policy they will charge higher interest rate for those who have less repayment capacity.

Table 5: Expansionary monetary policy increases bank reserves and increases lending to start ups.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Nuetral	2	11.8	11.8	11.8
	Agree	10	58.8	58.8	70.6
	Strongly Agree	5	29.4	29.4	100.0
	Total	17	100.0	100.0	

Interpretation:
From the above graph it can be inferred as 58.8% of the respondents agree that monetary expansion increases bank reserves, hence the lending to start ups. It is 29.4% of the respondents strongly agreed for the statement. The t-test results at 5% level of significance indicate that H_0 is rejected ($t = 7.628$, df=16, $p= .00$). Hence expansionary monetary policy increases bank reserves and lending to start ups. Lower interest rates on loan attracts start ups and this will lead to more investment activities taking place.

Table 6: Demand for loans for projects by start ups go up during contractionary monetary policy, when bank loans are available at high interest rates.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	3	17.6	17.6	17.6
	Disagree	11	64.7	64.7	82.4
	Nuetral	3	17.6	17.6	100.0
	Total	17	100.0	100.0	

Interpretation:
The above graph shows that 64.7% of the respondents disagreed that demand for the loans for projects go up during higher interest rates. It is 17.6% of the respondents strongly disagreed to the statement. The t-test results at 5% level of significance indicate that H_0 is rejected ($t = 6.733$, df=16, $p= .000$). Hence it can be inferred as when loans are available at higher interest rates the demand for loans from start ups don't go up. Higher interest rates affect profit margins and performance of the enterprise. Hence start ups hold back investments which will result into lower credit demand for projects.

Table 7: Inadequate credit disbursals from banks during contractionary monetary policy will slow down investment in Plant & Machineries in start ups.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	1	5.9	5.9	5.9
	Nuetral	4	23.5	23.5	29.4

	Agree	7	41.2	41.2	70.6
	Strongly Agree	5	29.4	29.4	100.0
	Total	17	100.0	100.0	

Interpretation:
It is noticed from the above graph that 41.2% of the respondents agreed that inadequate credit disbursals from banks will slowdown start ups investment in Plant and machineries. It is 29.4% of the respondents who have strongly agreed for the statement. Hardly 5.9% of the respondents strongly disagreed that inadequate credit disbursals will slow down investment in plant and machineries. Majority of the respondents have agreed (70.6%) that investment activities in start ups slow down due to inadequate credit disbursals from the banks. Insufficient credit from banks lead to start ups approach other sources of finance like money lenders who charge them very high interest rates. Hence this affects their cash flows and risky. They will be forced to let go the opportunity in the case of inadequate finance from banks.

Table 8: Start ups approach money lenders due to insufficient loan availability from banks during contractionay monetary policy conditions (Periods of higher interest rates and increased reserve requirements).

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	2	11.8	11.8	11.8
	Disagree	4	23.5	23.5	35.3
	Nuetral	4	23.5	23.5	58.8
	Agree	4	23.5	23.5	82.4
	Strongly Agree	3	17.6	17.6	100.0
	Total	17	100.0	100.0	

Interpretation:
From the above graph it is noticed that 17.6% of the respondents strongly agreed that in case of insufficient credit availability from banks during contractionay monetary policy, start ups approach money lenders. It is found that 23.5% of the respondents agreed for the statement. As per their view in case of any insufficient funds from bank for the smooth running of operations start ups go to money lenders. 23.5% of the respondents gave a neutral opinion as it was difficult for them to observe the moves of start ups. It is 23.5% of the respondents are of the view that start ups won't approach money lenders due to insufficient loan availability from banks during contractionay monetary policy. 11.8% of the respondents strongly disagreed to the staement. As per their opinion the interest rates with money lenders will be high, hence start ups won't approach them. During contractionary monetary policy banks want to be conservative and disburse loans to less risky one, the start ups face inadequate credit availability problem.

Table 9: Start up company dependancy on trade credit due to insufficient credit availability from bank.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	1	5.9	5.9	5.9
	Nuetral	3	17.6	17.6	23.5
	Agree	9	52.9	52.9	76.5
	Strongly Agree	4	23.5	23.5	100.0
	Total	17	100.0	100.0	

Interpretation:
From the above graph it is noticed that, 52.9% of the respondents agreed and 23.5% of the respondents strongly agreed that start ups depend on trade credit in the case of insufficient credit availability from the banks. This is because trade credit is easier to access and bit cheaper compared to money lenders interest rates. Trade credit works out to be costly but addresses the short term liquidity concerns in start ups. Hardly 5.9% of the respondents are of the view that start ups won't rely on trade credit due to inadequate credit availability.

Table 10: Changes in demand for final products of the start ups play a significant role on bank lending decisions.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	1	5.9	5.9	5.9
	Nuetral	2	11.8	11.8	17.6
	Agree	10	58.8	58.8	76.5
	Strongly Agree	4	23.5	23.5	100.0

Table 10: Changes in demand for final products of the start ups play a significant role on bank lending decisions.					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	1	5.9	5.9	5.9
	Nuetral	2	11.8	11.8	17.6
	Agree	10	58.8	58.8	76.5
	Strongly Agree	4	23.5	23.5	100.0
	Total	17	100.0	100.0	

Interpretation:
From the above graph it is noticed that, 58.8% of the respondents agreed and 23.5% of the respondents strongly agreed that bank lending decisions are significantly influenced by the demand for final products of start ups. If opportunities for the start ups looks bleak, demand for the end products go down then cash flows are affected. During contractionay monetary policy when business opportunities are less and banks face shortage of funds, banks would follow conservative approach while lending to risky borrowers. Hardly 5.9% of the respondents are of the view that changes in demand for final products of the start ups won't play a significant role on bank lending decisions.

Table 11: Effect of higher interest rates on the performance of start ups					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Nuetral	1	5.9	5.9	5.9
	Agree	11	64.7	64.7	70.6
	Strongly Agree	5	29.4	29.4	100.0
	Total	17	100.0	100.0	

Interpretation:
It is noticed from the above graph that 64.7% of the respondents have agreed and 29.4% have strongly agreed that performance of the startups is affected with high borrowing costs on loans. Majority (94.1%) of the respondents view is that higher interest cost levied on loans borrowed from the banks will affect the earning before tax and profit margins. The t-test results at 5% level of significance indicate that H_0 is rejected (t = 9.058, df=16, p= .00). Hence lower or insufficient profits obstruct the growth of the start ups.

Findings:
Interest rate is an important consideration for start ups when they go for borrowings is to the extent of 94%. Start ups look at interest rate as an important factor and take decisions about whether to go for loan or not to depending upon the return on investment.

Monetary policy conditions have influence on lending decisions of the banks is to the extent of 82.3%. Depending upon the monetary policy the interest rates and credit loan disbursals are decided by the banks. Bank lending to start ups increases during expansionary monetary policy and decreases during contractionary monetary policy due to shortage of funds.

Banks face shortage of funds to lend to start ups during contractionay monetary policy is to the extent of 60%. Lending activity to start ups decreases during tight money and the loan rates will be higher. Banks disburse loans to selective tart ups who have high credit repayment capacity. As per the 41.2% of the respondents view it is understood that banks follow a conservative approach while lending to start ups during contractionay monetary policy as these are considered to be risky. It is found that banks collect money in the form of deposits or raise capital from other sources to meet the requirement or the shortage.

Expansionary monetary policy increases bank reserves and loans will be cheaper is to the extent of 88.2%. Hence expansionary monetary policy increases lending to start ups. Lower interest rates on loan attracts start ups and encourage investment activities taking place.

When loans are available at higher interest rates the demand for loans from start ups for projects don't go up is to the extent of 82.3%. Higher interest rates affect profit margins and performance of the enterprise. Hence start ups hold back investments which will result into lower credit demand for projects.

Investment activities in start ups slow down due to inadequate credit disbursals from the banks is to the extent of 70.6%. Insufficient credit from banks makes start ups approach other sources of finance like money lenders who charge them very high interest rates. Hence this affects their cash flows and risky.

41.1% of the respondents said that in case of insufficient credit availability from banks, start ups approach money lenders. For the smooth running of operations start ups go to money lenders even the cost of credit is high. 23.5% of the respondents gave a neutral opinion as it was difficult for them to observe the moves of start ups. 35.3% of the respondents are of the view that start ups won't approach money lenders due to insufficient loan availability from banks because money lenders will charge higher interest on loans. Hence start ups face shortage of funds during contractionary monetary policy due to inadequate credit disbursals from banks.

Start ups depend more on trade credit in the case of insufficient credit availability from the banks is to the extent of 76.4%. This is because trade credit is easier to access and bit cheaper compared to money lenders interest rates. Trade credit works out to be costly when compared with bank interest rates on loans but addresses the short term liquidity concerns in start ups.

Bank lending decisions are significantly influenced by the demand for final products of start ups is to the extent of 82.3%. If opportunities for the start ups looks bleak, demand for the end products go down then cash flows are affected.

Higher interest cost levied on loans borrowed from the banks will affect the earning before tax and profit margins is to the extent of 94.1%. Hence lower or insufficient profits obstruct the growth of the start ups. It is found that high cost of borrowings won't affect repayment capacity of start ups much and this is not the only reason for the increase in the defaults rate.

Suggestions:

Managing the discouraged borrowers is not easy task with introduction of credit guarantee schemes. The potential of these schemes relating to meeting the needs start ups is questionable. RBI must take more measures to increase the credit flow to the much needy start ups.

Conclusion:

A contractionay monetary policy makes difficult for start ups to avail sufficient loan amount at cheaper interest rates visa-versa. Depending upon the monetary policy banks decide interest rates on loans and the credit disbursals. Bank lending to start ups increases during expansionary monetary policy due to surplus funds and decreases during contractionary monetary policy due to shortage of funds. Banks face shortage of funds to lend to start ups during contractionay monetary policy. Banks follow a conservative approach while lending to start ups during contractionay monetary policy as these are considered to be risky. Bank lending decisions are significantly influenced by the demand for final products of start ups.

When loans are available at higher interest rates the demand for loans from start ups for projects don't go up. Start ups hold back investments in plant and machinery which will result into lower credit demand for projects due to high or increase in interest rates. Investment activities in start ups slow down due to inadequate credit disbursals from the banks. Insufficient credit from banks makes start ups approach other sources of finance like money lenders who charge them very high interest rates. Hence contractionary monetary policy hinders expansion plans or investment activities in start ups as they are much dependent on bank credit.

It is difficult for a small firm to get adequate credit in time at moderate interest rates during contractionay monetary policy. Start ups depend more on trade credit in the case of insufficient credit availability from the banks. This is because trade credit is easier to access and bit cheaper compared to money lenders interest rates.

Higher interest cost levied on loans borrowed from the banks will affect the earning before tax and profit margins. Hence lower or insufficient profits obstruct the growth of the start ups. Inadequate short term loan availability from banks affects ongoing operations which leads to decrease in loan repayment capacity of start ups. Inadequate credit availability from banks affects the performance of start ups and hampers the growth.

A conducive environment for the growth of these start ups is required where adequate loan at lower interest rates from banks is accessible. Hence expansionary monetary policy is found to be favourable for start ups where adequate money is available in banking system to lend at cheaper interest costs.

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