



Assessing the Multi-Sectoral Impact of the RBI's 2025 Monetary Easing on the Indian Economy

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Abstract – In early 2025, the Reserve Bank of India (RBI) undertook an aggressive monetary easing strategy to counter subdued economic growth and global uncertainty. This study analyzes the sectoral transmission of the RBI's policy through detailed assessments of banking, real estate, automotive, MSMEs, rural economy, and financial markets. The paper investigates how reductions in the repo rate, CRR, and enhanced liquidity influenced credit growth, investment, and inflation control across income groups and regions. While the easing policies stimulated credit-fueled growth and improved liquidity conditions, asymmetries in transmission, credit risks, and the threat of inflationary rebound remain critical challenges. This research combines real-time data with a comparative lens to draw insights into the efficacy, risks, and social implications of India's accommodative monetary approach in 2025.

Keywords – Monetary Policy Transmission, Sectoral Impact, Liquidity Infusion, Credit Growth, Inflation Control.

I. INTRODUCTION

In response to sluggish economic activity and global uncertainty, the Reserve Bank of India (RBI) initiated an aggressive monetary easing cycle in early 2025. This research paper offers a comprehensive multi-sectoral analysis of the transmission and effects of the RBI's policy decisions, particularly repo rate and Cash Reserve Ratio (CRR) reductions. Spanning key economic domains—banking, real estate, MSMEs, automotive, agriculture, and financial markets—the study delves into both macroeconomic and distributional outcomes emerging from the easing cycle. Notably, the RBI implemented three significant rate cuts in 2025, reducing the repo rate cumulatively by 100 basis points, from 6.25% in February to 5.50% by June, and slashed the CRR by 100 basis points, injecting ₹2.5 lakh crore into the system.

The paper evaluates the sector-wise responsiveness and differential transmission of this stimulus, revealing improvements in credit growth, housing demand, consumer spending, and investor sentiment. For example, the automotive sector witnessed a 14.6% rise in passenger vehicle sales and 37% growth in EV registrations, while home loan EMIs dropped, enabling lifetime savings of up to ₹14.4 lakh. Public sector banks fully transmitted the easing to lending rates, though Net Interest Margins were squeezed.

Beyond economic metrics, the paper also highlights asymmetries—urban borrowers benefited more than rural consumers or interest-income-dependent households. Despite headline inflation falling to 2.82% in May 2025 (from 3.3% in February), the study cautions against potential inflationary rebound, asset bubbles, and credit risks due to excessive liquidity. Anchored in empirical data and forward-looking projections, this study provides timely insight into the efficacy, limitations, and socio-economic consequences of India's accommodative monetary strategy, contributing to a nuanced understanding of monetary policy in emerging economies.

II. LITERATURE REVIEW AND THEORETICAL FRAMEWORK

Monetary Policy Transmission in India

Interest rates, credit, asset prices, and exchange rates are the channels through which monetary policy is transmitted in India. The dominance of the banking industry makes the credit channel especially important. According to empirical research, a 100 basis point change in the policy rate causes lending rates under the MCLR system to change by 26–47 basis points (as opposed to 11–19 bps under the previous base rate regime), indicating better pass-through. Better liquidity alignment, flexible inflation targeting, and a decline in credit demand during slowdowns are all credited with this improvement.

Asymmetric Effects and Financial Frictions

Recent research (e.g., Mohanty and Bhanumurthy, 2022) using Markov-Switching VAR models demonstrates that monetary policy effectiveness is regime-dependent: during high-volatility periods, financial frictions (e.g., weak balance sheets, liquidity constraints) dampen the impact of easing, while in low-volatility phases, the effects are more pronounced.

Inflation Targeting Framework

India's adoption of a flexible inflation targeting (FIT) regime in 2016 (4% CPI target, $\pm 2\%$ band) has anchored expectations and improved policy credibility. Some economists advocate for core inflation targeting (excluding volatile food and fuel prices) to better capture underlying demand pressures.

III. RESEARCH OBJECTIVES

1. To examine the transmission effectiveness of the RBI's 2025 rate cuts across key sectors of the Indian economy, including banking, real estate, MSMEs, and consumer markets.



2. To assess the distributional impact of monetary easing on various socio-economic groups, income segments, and regions in India.
3. To analyze the macroeconomic implications of the RBI's 2025 policy actions on inflation control, economic growth, liquidity, and financial stability.
4. To compare India's monetary easing framework and its outcomes with global central bank trends, highlighting best practices and context-specific challenges.

IV. METHODOLOGY AND DATA ANALYSIS

Data Sources and Timeframe

- Quantitative Data: RBI policy statements, Ministry of Statistics and Programme Implementation data, sectoral performance indicators (February–June 2025), with projections for FY2025–26.
- Qualitative Data: Bank policy responses, financial commentary, market behavior.

Analytical Framework

- Transmission Mechanism Analysis: Examines how repo rate changes affect lending and deposit rates.
- Sectoral Impact Assessment: Focuses on banking, real estate, automotive, FMCG, and MSMEs.
- Distributional Analysis: Investigates effects across income groups and geographies.
- Risk Assessment: Identifies vulnerabilities (e.g., inflation resurgence, asset bubbles).

Note: While the time frame is short, the analysis is supplemented with forward-looking projections and sensitivity to known transmission lags.

Table 1: RBI's Monetary Policy Actions in 2025

Date	Action	Repo Rate (%)	CRR (%)	Remarks
Feb 7, 2025	25 bps cut	6.25	4.00	First rate cut in nearly 5 years
Apr 9, 2025	25 bps cut	6.00	4.00	Continued easing amid falling inflation
Jun 6, 2025	50 bps cut	5.50	3.00	Surprise cut, shift to "neutral" stance

Together, these tools provide a well-rounded basis for evaluating the efficacy and consequences of RBI's 2025 monetary policy actions.

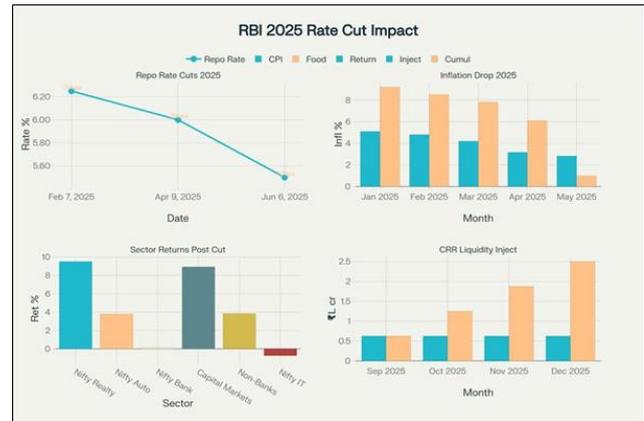


Figure. 1. Comprehensive Impact Analysis of RBI's 2025 Rate Cuts: Policy Timeline, Inflation Control, Market Response, and Liquidity Injection.

V. ANALYSIS AND RESULTS

Banking Sector: Navigating Growth and Margins

Following the recent 100 basis points policy rate cut, major public sector banks such as Bank of Baroda and Punjab National Bank responded by fully transmitting the easing. Bank of Baroda reduced its Benchmark Repo Linked Lending Rate (BRLLR) from 8.65% to 8.15%, while PNB lowered its Repo Linked Lending Rate (RLLR) from 9.60% to 9.10%. The liquidity surplus, supported by ₹2.5 lakh crore in Cash Reserve Ratio (CRR) reserves, enabled banks to meet rising credit demand, allocate funds toward bond investments, and moderately adjust deposit rates. However, this rate transmission exerted pressure on banks' Net Interest Margins (NIMs), as deposit rates remained relatively sticky. Institutions with a higher proportion of fixed-rate lending portfolios appeared to manage better under these conditions. For a more robust assessment, the analysis could be enhanced by integrating empirical data on NIM performance, credit-deposit growth patterns, and trends in non-performing assets (NPAs) during the post-easing period.

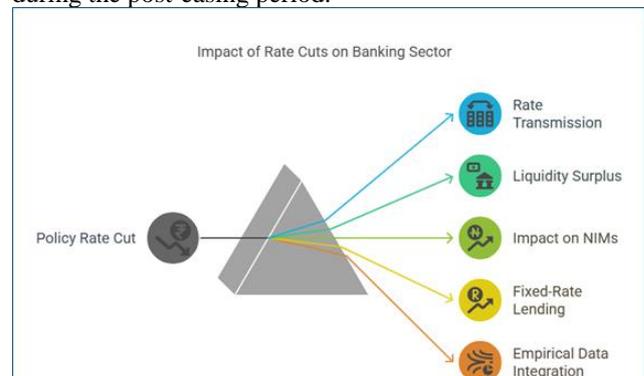


Figure. 2. Impact of Rate cuts on banking sector (source: compiled by author)



Table 2: Banking Sector Response and Margin Impact

Metric	Public Sector Banks	Private Sector Banks	Foreign Banks	Small Finance Banks
NIM Change (FY 25–26) (bps)	-17	-25	-15	-25
EBLR Transmission (%)	100%	100%	—	—
MCLR Pass-through (bps)	26–47	26–47	—	—
Avg Deposit Rate Lag	2–3 quarters	2–3 quarters	—	—

Real Estate Sector: Reigniting Demand

The recent monetary policy easing has significantly influenced India’s real estate sector, contributing to a notable revival in housing demand. The Nifty Realty Index recorded a 4.3% increase following the cumulative 100 basis points reduction in policy rates, reflecting strong investor sentiment. As a result, home loan interest rates declined to a range of 7.5–8%, directly benefiting consumers. For instance, a ₹45 lakh home loan over 20 years now yields a monthly saving of approximately ₹2,848, enhancing affordability for middle-income households. Real estate developers such as DLF and Signature Global have reported an uptick in pre-sales, particularly in the affordable and mid-income housing segments. This resurgence in housing activity has also created positive spillover effects on allied sectors, including cement, steel, and home furnishings, thus supporting broader economic recovery. However, the sector remains vulnerable to external shocks and potential policy reversals, which could undermine the current growth trajectory and dampen investor confidence.

Table 3: Housing Sales in Top Cities (Q1 2025 vs Q1 2024)

City	Units Sold (Q1 2025)	YoY Change (%)	Price Growth (%)
Mumbai	14,880	-10%	+8%
Delhi NCR	8,290	-18%	+18%
Bengaluru	15,340	-10%	+15%
Pune	12,500	-5.3%	+12%

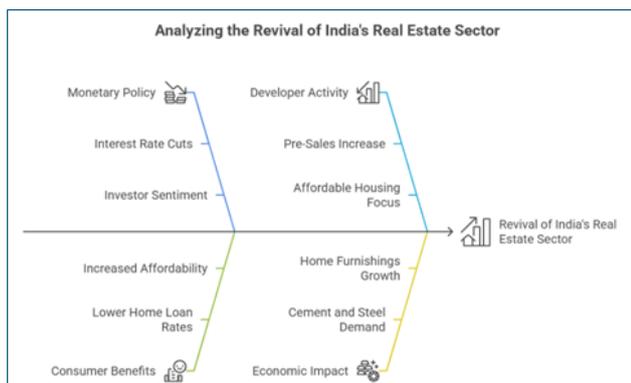


Figure. 3. Analysing the revival of India’s Real Estate Sector (source: compiled by author)

Table 4: EMI Savings Across Loan Sizes (20-Year Tenure, 100 bps Cut)

Loan Amount	Annual Savings (₹)	Lifetime Savings (₹)	Tenure Reduction
₹25 lakh	₹24,000	₹4.8 lakh	15 months
₹50 lakh	₹50,400	₹9.6 lakh	15 months
₹75 lakh	₹72,000	₹14.4 lakh	15 months

Automotive Sector: Credit-Fueled Growth

The automotive sector, a key driver of India’s manufacturing output and employment generation, witnessed a robust rebound in the first half of 2025 following the Reserve Bank of India’s (RBI) monetary easing measures. The RBI reduced the repo rate from 6.50% to 5.75% between January and April 2025, signaling a pro-growth policy shift aimed at stimulating credit demand across sectors. This reduction in the policy rate directly translated into lower auto loan interest rates, which averaged around 8.1% in May 2025, down from 9.2% in late 2024, according to data from the State Bank of India and HDFC Bank.

This monetary stimulus significantly boosted vehicle financing. As per SIAM (Society of Indian Automobile Manufacturers) data, passenger vehicle sales grew by 14.6% year-on-year in Q1 2025, with two-wheeler sales rising by 11.2%—driven largely by rural demand and improved credit accessibility. The commercial vehicle segment, typically more sensitive to interest rate changes, also rebounded with a 9.8% increase in sales, aided by better fleet financing options and recovering infrastructure activity.

Manufacturers responded to the demand resurgence by ramping up production. The Index of Industrial Production (IIP) for Motor Vehicles rose by 12.5% in April 2025, reflecting strong capacity utilization. Simultaneously, financial institutions recorded a surge in auto loan disbursements—auto loan portfolios of major banks and NBFCs grew by 16.3% year-on-year, as per RBI’s Sectoral Deployment of Bank Credit Report (June 2025).

The electric vehicle (EV) segment also benefitted from this credit-fueled environment. According to VAHAN portal data, EV registrations crossed 2.1 lakh units in the first five months of 2025, a 37% increase compared to the same period in 2024. Startups in the EV and battery supply chain accessed cheaper working capital, with many securing term loans at interest rates below 9%—a rare phenomenon in the Indian startup lending landscape.

However, the sector continues to face headwinds. Semiconductor shortages—though easing—still impact production timelines for premium models. Additionally, input costs for steel and rubber rose by 4.6% and 6.1% respectively (YoY, April 2025, Ministry of Commerce), exerting margin pressure. Export demand remains inconsistent due to global economic uncertainties, especially in the EU and ASEAN markets.

The RBI’s 2025 monetary easing played a catalytic role in reviving demand and investment in India’s automotive sector through enhanced credit availability and reduced financing costs. While this credit-fueled growth is promising, sustaining momentum will require structural reforms, supply-side stability, and continued policy support in complementary areas such as infrastructure, EV charging networks, and R&D innovation.

Top Beneficiaries of Monetary Policy Easing

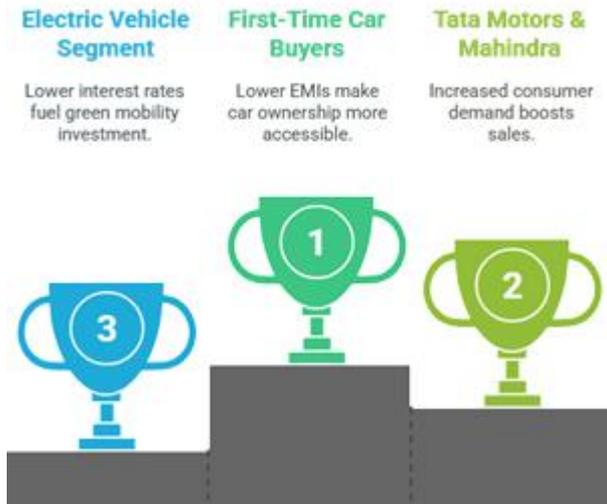


Figure. 4. Top Beneficiaries of Monetary policy at Automotive sector (source: complied by author)

Table 5: MSME Credit Growth and Risk (March 2025)

Metric	Value
Total MSME Credit Exposure	₹35.2 lakh crore
YoY Growth	+13%
Delinquency Rate (90+ DPD)	1.79% (five-year low)
New-to-credit MSMEs (share)	47%
Credit Enquiry Growth (YoY)	+11%

MSME Sector: Unlocking Credit

Innovation, job creation, and inclusive economic growth are all greatly aided by the Micro, Small, and Medium Enterprises (MSME) sector. MSMEs benefit greatly from easier access to credit because it lowers borrowing costs and increases liquidity, which enables businesses to invest in new technology and increase their operational capacity. The long-term adaptability, competitiveness, and productivity all depend on this kind of funding. Even though precise quantification requires exact numbers, it is expected that the continuous expansion of MSME credit will greatly boost both output and employment in a number of various industries.



Figure. 5. MSME Credit Access (source: complied by author)

This expansion needs to be handled carefully, though, because quick credit disbursement without strong underwriting standards could increase exposure to credit risk. Therefore, policymakers and financial institutions have to balance facilitating the availability of financing with maintaining the stability of the financial system through careful risk assessment and credit evaluation frameworks, even though credit promotion is still a crucial growth lever for small and medium-sized enterprises.

Consumer Spending and Household Dynamics

The consequences of monetary policy decisions, especially rate reductions, on various population sections exhibit a distributional imbalance. Because lower equated monthly installments (EMIs) result from lower lending rates, urban, middle-class borrowers stand to gain the most, as the amount they can spend rises and spending by consumers is stimulated. Urban markets see an increase in business activity as a result of this higher power of purchase. The distribution of this stimulus-driven benefit is uneven, though. Conversely, retirees and those who depend on interest income from fixed deposits see a drop in their income because, during easing cycles, deposit rates are usually decreased by 30 to 70 basis points. This erosion of interest income negatively affects the financial security of savings-dependent households. Thus, while the accommodative monetary policy supports credit-led consumption and economic revival, it simultaneously places stress on vulnerable groups, highlighting the inherent asymmetry in policy transmission and its varied implications on household financial dynamics across different income and age groups.



Monetary Policy Impact on Households

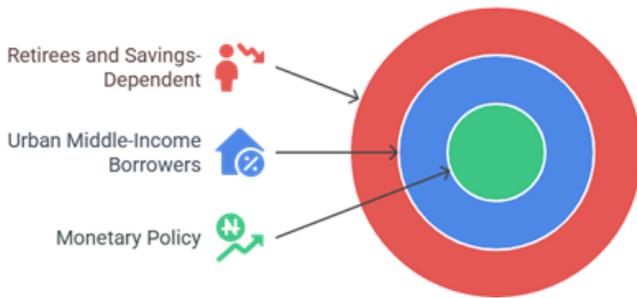


Figure. 6. Monetary Policy Impact on Households (source: complied by author)

Rural Economy and Agriculture

The rural economy and agricultural sector are likely to experience a moderate but essential boost from the recent monetary policy changes, particularly through enhanced access to rural credit and reduced farm loan interest rates. Initiatives such as the PM Dhan-Dhaanya Krishi Yojana, aimed at supporting 1.7 crore farmers, are expected to catalyze investment in agriculture and allied activities. However, the transmission of monetary policy in rural areas tends to exhibit a lagged effect. Unlike urban consumption, rural spending is less immediately responsive to interest rate cuts, often depending more on seasonal income patterns, credit facilitation, and remittance inflows. Nonetheless, improved access to affordable credit can strengthen rural productivity over time by enabling investment in inputs, equipment, and infrastructure. A critical limitation in assessing the full impact remains the lack of granular data regarding the actual uptake of rural credit and corresponding investment behavior in agriculture. Addressing this gap would allow for more accurate policy evaluation and targeted intervention.

Financial Markets and Investment Climate

A notable increase in the equity section indicates that Indian financial markets have responded with increased optimism to the recent repo rate cut in June 2025. Because of a shift in capital flows from fixed-income instruments to stocks and a boost in investor confidence, the benchmark Sensex jumped by more than 800 points. Concurrently, the corporate bond market has displayed indications of a more favourable risk appetite; reducing spreads indicate that investors are more inclined to take on debt from the private sector. Foreign institutional investors have adopted a cautiously optimistic stance, selectively re-entering Indian markets amid evolving global economic dynamics. However, this surge in liquidity and risk-on sentiment raises concerns about the potential formation of asset bubbles, particularly if accommodative monetary conditions persist for an extended period. Sustained capital inflows without commensurate improvements in corporate earnings or macroeconomic fundamentals could distort asset valuations, thereby necessitating careful policy

calibration and vigilant regulatory oversight to preserve financial market stability.

VI. DISTRIBUTIONAL EFFECTS AND SOCIAL IMPLICATIONS

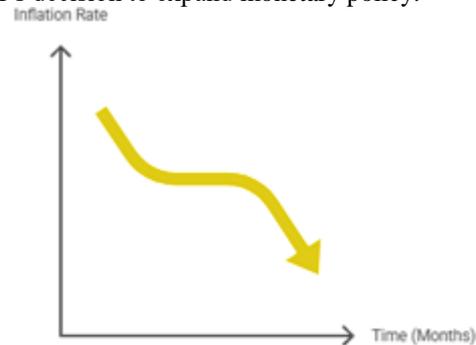
Effects and Implications of Monetary Policy

Characteristic	Inflation	Growth	Exchange Rate	Financial Stability
Dynamics	Declining headline and food inflation	GDP growth steady at 6.5%	Weakening US dollar supports easing	Monetary easing boosts credit, consumption
Forecasts	FY26 forecast revised to 3.7%	Projection remains steady at 6.5%	Current account deficit manageable range	Banks have adequate capital buffers
Risks	Potential for inflation from liquidity infusion	Sustainability depends on private investment	Risk of sudden capital outflows exists	Rapid credit expansion elevates future risk
Critical Perspective	Cautious approach needed to avoid past episodes	Revival of private investment is important	Balance growth with external stability	Lagged effects require ongoing vigilance

Figure. 7. Effects and Implications of Monetary policy(source: complied by author)

Inflation Dynamics and Price Stability

The RBI’s bold rate cuts in 2025 were implemented against the backdrop of unusually low inflation, which provided the central bank with the policy space to prioritize growth. Headline inflation declined from 3.3% in February to 2.82% in May 2025, marking the lowest level since February 2019. Food inflation, historically a volatile component, reached just 0.99% in May—the lowest since October 2021. These disinflationary trends supported the RBI’s decision to expand monetary policy.



Inflation rate decreasing in 2025

Figure. 8. Inflation rate decreasing y(source: complied by author)

Table 6: Inflation Dynamics and Price Stability (March 2025)

Month	CPI Inflation (%)	Food Inflation (%)
Jan 2025	5.10	9.20
Feb 2025	4.80	—
Mar 2025	4.20	—
Apr 2025	3.16	—
May 2025	2.82	0.99

Forecasts and Justification:

The revised inflation forecast for FY26 stands at 3.7%, down from the previous estimate of 4.0%. This downward revision reflects the RBI’s confidence in its ability to



contain prices, conditional on a normal monsoon and stable global commodity prices.

Risks and Critical Perspective:

Despite the current benign inflation environment, risks remain. The liquidity infusion of ₹2.5 lakh crore via the CRR cut, combined with the cumulative 100 basis point repo rate reduction, has the potential to stoke inflation if supply chains are disrupted or if global commodity prices spike. The RBI's shift to a neutral policy stance after the June MPC meeting signals a cautious approach, maintaining flexibility to tighten policy should inflation expectations begin to rise. This calibrated stance is prudent, but the central bank must remain vigilant to avoid a repeat of past episodes where excessive liquidity led to inflationary pressures.

Growth Dynamics and Output Effects

Despite the Reserve Bank of India's continued expansionary monetary policy, the GDP growth projection for FY26 remains steady at 6.5%. As noted by Governor Malhotra, this rate is "lower than our aspirations," thereby indicating the need for sustained monetary stimulus to support the recovery process. The transmission of policy easing operates through multiple channels. The credit channel has been particularly responsive, with banks reducing lending rates across corporate and retail segments, thereby enhancing the availability of capital for investment and consumption. The interest rate channel is also playing a critical role, as reduced borrowing costs are expected to revive private investment, which had been sluggish in recent years due to low business confidence. Furthermore, the consumption channel—vital given that household consumption contributes nearly 60% to GDP—is witnessing early signs of revival. This is evident through increased EMI savings, a rebound in real estate activity, and improved consumer sentiment linked to stock market gains.

Critical Perspective: While the immediate effects on consumption and credit are positive, the sustainability of this growth depends on the revival of private investment and productivity gains. There is also a risk that stimulus-driven growth could mask underlying structural weaknesses if not accompanied by reforms.

Exchange Rate and External Sector Implications

The global monetary environment in 2025 has been supportive of emerging market easing. A weakening US dollar, as highlighted by Jefferies, has given India and its peers room to pursue accommodative policies without triggering major capital outflows.

Current Account and Capital Flows:

India's current account deficit continues to remain within a manageable range, underpinned by strong performance in services exports, steady inflow of remittances, and relatively moderate global crude oil prices. These factors collectively contribute to external sector stability, despite ongoing global economic uncertainties. Although a

reduction in domestic interest rates could potentially diminish the appeal of Indian debt instruments for foreign portfolio investors, this is likely to be offset by a favorable macroeconomic environment. It is anticipated that India's enhanced growth potential clients, together with the Reserve Bank of India's (RBI) dependable and consistent policy structure, will draw steady foreign direct investment and equity capital inflows. Strong investor confidence in the RBI's accommodative stance was demonstrated by the Indian shares market's response to the June 2025 rate cut, where the Sensex recorded an 800-point surge. With the help of a stable investment climate and a sensible mix of policies, India's external economy is still robust as a whole.

Risks and Balance:

In the event that inflation in the country shocks to the upside down or if global risk sentiment changes, there is still a chance of abrupt capital outflows. Therefore, the Reserve Bank of India must strike an equilibrium between the need to maintain external fiscal stability and economic objectives.

Financial Stability Considerations

Unquestionably, monetary stimulus has increased credit and consumption, but it also brings risks to the system that need close attention.

Banking Sector Health:

- However, the quick growth of credit, particularly in unsecured sections and MSMEs, could increase future credit risk if underwriting standards deteriorate.
- Major financial institutions currently show sufficient capital buffers, and non-performing loans levels have decreased in comparison to prior intervals, indicating resiliency.

Emerging Risks:

Potential spillovers from AI-driven fintech, rapid digitisation, and leveraging credit phases are suitably highlighted in the the Reserve Bank of India policy declaration. These advancements foster innovation and financial inclusion, but they also bring with them new risks, like operational brittleness and cyber risk.

Supervisory Response:

The RBI is expected to intensify:

- Stress testing frameworks to assess resilience under adverse scenarios
- Prudential norms on unsecured lending to prevent excessive risk-taking
- Risk-based supervision to make sure that quick credit expansion doesn't jeopardise liquidity, especially for NBFCs and fintech lenders

Critical Assessment:

Even though the banking system seems stable right now, continued attention is necessary due to the delayed effects of monetary easing. Although the RBI's proactive approach to monitoring is praiseworthy, strong enforcement and real-time data analytics are necessary for these initiatives to be successful.



Table 7: Key Distributional and Stability Impacts

Indicator	Pre-Easing (Feb 2025)	Post-Easing (May/June 2025)	Risks/Comments
Headline Inflation (%)	3.3	2.82	Risk of resurgence if supply shocks occur
Food Inflation (%)	1.7	0.99	Historically volatile, needs close monitoring
GDP Growth Forecast (%)	6.5 (FY26)	6.5 (unchanged)	Stimulus may not be enough for higher growth
Liquidity Infusion (? lakh crore)	0	2.5	Potential for asset bubbles, credit risk
Sensex Movement (points)	-	+800 (post-June cut)	Reflects positive sentiment, but can reverse
NPA Trend	Elevated (2023-24)	Declining	Unsecured credit growth is a watch point

India's Monetary Easing - 2025

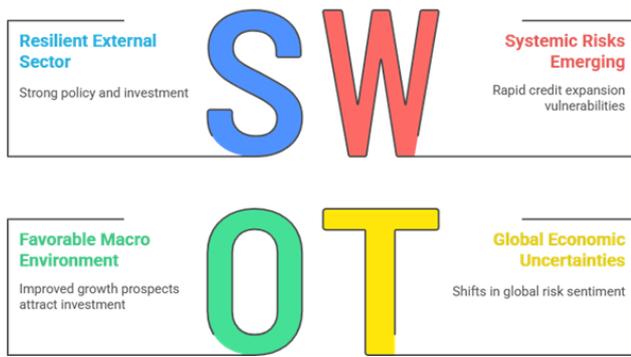


Figure. 9. SWOT Analysis of India's Monetary Easing (source: compiled by author)

VII. CONCLUSION

The 2025 monetary easing cycle by the Reserve Bank of India has had a far-reaching, multifaceted impact across sectors of the Indian economy. The research reveals that while the overall transmission of the 100 bps reduction in repo rate and the CRR cut of 100 bps has been largely effective in spurring credit-led recovery, the sectoral outcomes vary significantly.

Banking experienced a notable response, with public sector banks such as Bank of Baroda and PNB fully transmitting the rate cuts, reducing BRLLR and RLLR respectively. However, this came at the cost of squeezed Net Interest Margins (NIMs)—with public banks losing 17 bps and private banks up to 25 bps. Liquidity conditions improved dramatically due to the ₹2.5 lakh crore CRR liquidity injection, aiding loan disbursements, especially in auto and housing sectors.

The real estate sector saw revived demand, particularly in the mid-income segment. The Nifty Realty Index surged by 4.3%, while EMI savings across loan sizes led to greater affordability. Despite this positive momentum, risks remain from external shocks and a fragile investor climate.

The automotive sector rebounded with a 14.6% rise in passenger vehicle sales, an 11.2% increase in two-wheelers, and a 37% jump in EV registrations in the first five months of 2025. Lower auto loan interest rates (down to 8.1%) and increased credit accessibility drove this growth. However, global uncertainties, rising input costs, and persistent supply-chain issues (like semiconductor shortages) pose risks to long-term sustainability.

MSMEs gained significantly through enhanced credit availability, reflected in a 13% YoY growth in credit exposure, a 1.79% delinquency rate (a 5-year low), and 47% share of new-to-credit borrowers. Yet, the paper cautions against rapid credit disbursal without robust risk evaluation mechanisms.

In terms of macro indicators, CPI inflation fell to 2.82% in May 2025, the lowest since 2019, allowing policy flexibility. However, the authors stress the risk of inflation resurgence due to excess liquidity and potential commodity price shocks. GDP growth remains at 6.5% for FY26—steady but below the aspirational threshold. Consumption improved, particularly in urban middle-class households benefiting from EMI reductions. Conversely, fixed-income groups like retirees faced income erosion due to falling deposit rates, highlighting the asymmetry in policy transmission.

Financial markets responded optimistically; the Sensex jumped 800 points post-June policy cut. Yet, concerns about asset bubbles persist due to capital inflows chasing equities amidst benign inflation and low interest rates. While FDI and FPI trends are favorable, a shift in global sentiment could lead to outflows.

The paper concludes that while RBI's 2025 easing has supported short-term recovery by enhancing liquidity, reviving credit, and stabilizing inflation, its long-term effectiveness hinges on parallel structural reforms, vigilant inflation monitoring, and strong regulatory oversight. As such, accommodative policy must be complemented by fiscal support, investment in infrastructure, and enhanced credit governance, especially for MSMEs and rural sectors. Only then can India achieve sustained, inclusive, and resilient growth.

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