



## RECENT DEVELOPMENTS IN INDIA'S MONETARY POLICY: AN ANALYSIS OF RBI MEASURES IN 2025

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**ABSTRACT** This study examines the recent monetary policies and liquidity management measures undertaken by the Reserve Bank of India (RBI) in 2025. It analyses their implications for inflation, growth, exchange-rate stability, and financial-system resilience. The RBI's approach reflects a calibrated transition from accommodative to neutral policy stance, balancing domestic growth needs with inflationary control amid global uncertainties. The paper also reviews prior literature on monetary policy effectiveness and presents a descriptive analytical methodology to interpret the 2025 policy cycle. Findings reveal that while RBI's rate and liquidity adjustments boosted market liquidity and credit sentiment, foreign-exchange interventions partially offset the expansionary effects. The research contributes to understanding how India's central bank integrates inflation targeting, liquidity management, and macro-prudential stability in a post-pandemic, globally volatile context.

**KEYWORDS :** RBI, monetary policy, repo rate, inflation targeting, liquidity management, India.

### INTRODUCTION:

Monetary policy is a key instrument through which central banks manage liquidity, credit, and inflation expectations to achieve macroeconomic stability (Banerjee, 2025). The Reserve Bank of India (RBI), as the nation's monetary authority, operates under a flexible inflation-targeting regime with a target of  $4\% \pm 2\%$  (Singh.R, 2024). Since the COVID-19 pandemic, India's monetary stance has evolved from unprecedented accommodation to cautious normalization (Due, 2024). In 2025, the RBI faced renewed challenges—moderating inflation, stable but uneven growth, rupee depreciation pressures, and global trade disruptions due to geopolitical factors (RBI, June 2025). Against this backdrop, the RBI's policy actions—including repo-rate changes, Cash Reserve Ratio (CRR) adjustments, and liquidity operations—offer critical insights into the evolution of India's monetary strategy (RBI, Monetary policy statement, 2025 August).

### Review of Literature:

Scholars have extensively studied the role of monetary policy in stabilizing emerging economies like India.

Mishra and Narayan (K, 2021) examined the transmission mechanism of monetary policy, finding partial pass-through of repo-rate changes to lending rates due to banking-sector frictions.

RBI (RBI, Monetary policy statement, 2025 August) emphasized the importance of maintaining credibility within the inflation-targeting framework to anchor expectations effectively.

Bhoi and Behera (2020) (H, 2020) observed that inflation targeting improved policy transparency but required stronger fiscal-monetary coordination.

Singh (Singh.R, 2024) highlighted how liquidity operations, including Open Market Operations (OMOs) and variable-rate reverse repos, enhance short-term rate alignment

.Dua and Sinha (Due, 2024) analysed the pandemic period's accommodative stance and warned of lagged inflationary pressures.

More recently, Banerjee and Gupta (Banerjee, 2025) investigated the post-pandemic normalization, noting RBI's balancing act between sustaining growth and maintaining external stability.

From this body of work, several gaps emerge. First, few studies integrate the 2025 policy cycle in context of both domestic inflation moderation and external currency pressures. Second, limited attention has been paid to how simultaneous liquidity expansion and FX interventions interact to shape net monetary conditions. This article contributes to bridging those gaps by synthesizing recent policy developments and their macro-financial implications.

### Objectives of the Study

1. To analyse the recent monetary policy measures undertaken by the RBI in 2025.

2. To assess the implications of these policies for inflation, growth, and exchange-rate stability.

### Research Methodology

This study adopts a descriptive and analytical research design using secondary data sources. The analysis is based on the RBI's official monetary policy statements, press releases, and macroeconomic bulletins (2025). Supplementary data were obtained from major financial portals such as Reuters, Livemint, Moneycontrol, The Economic Times, and The Indian Express.

### Data Sources:

- RBI Monetary Policy Committee (MPC) meeting reports (June and August 2025).
- RBI press releases and official statements.
- Macroeconomic indicators: CPI inflation, GDP growth, and liquidity data from RBI Database on Indian Economy (DBIE).
- Media reports and expert commentary on RBI's FX interventions.

### Analytical Tools:

- Descriptive trend analysis of policy rates and liquidity indicators.
- Comparative interpretation of inflation and growth projections.
- Qualitative synthesis of policy stance and transmission channels.

This qualitative-quantitative hybrid approach allows examination of how each policy measure (repo-rate cut, CRR reduction, liquidity support, FX intervention) affects the macroeconomic environment.

### Recent Policy Measures:

#### 1 Repo Rate and Policy Stance

In June 2025, the RBI reduced the repo rate by 50 basis points to 5.50 %, accompanied by a 100 bps CRR cut to 3 % of NDTL. The MPC cited moderated inflation and uneven recovery as justification. In August 2025, the repo rate was maintained at 5.50 %, and the stance shifted from "accommodative" to "neutral" (RBI, 2025a; Livemint, 2025).

**Figure 1.** RBI Policy Rate Trend (2020–2025)

Year	Repo Rate (%)	CRR (%)	Policy Stance
2020	4.00	4.00	Accommodative
2021	4.00	4.00	Accommodative
2022	4.90	4.50	Gradual tightening
2023	6.50	4.50	Tight
2024	6.00	4.00	Calibrated easing
2025	5.50	3.00	Neutral

#### 2 Inflation and Growth Outlook

CPI inflation for FY 2025-26 was projected at 3.1 %, while real GDP growth was expected at 6.5 %. This moderate inflation provided room for policy easing, though external shocks (tariff hikes, rupee depreciation) warranted caution.

**Figure 2.** Inflation and GDP Growth Trends (FY 2021–FY 2026 Projection)

Fiscal Year	Inflation (%)	GDP Growth (%)
2021–22	5.9	9.1
2022–23	6.7	7.2
2023–24	5.4	7.0
2024–25	4.3	6.8
2025–26 (Proj.)	3.1	6.5

Source: RBI, Livemint (2025); Moneycontrol (2025).

The RBI projected inflation to decline below 4 % for FY 2026, providing space for measured easing while maintaining fiscal prudence.

### Liquidity and Reserve Operations

The CRR cut released ₹ 1.5 lakh crore into the system. Liquidity remained in surplus mode, averaging ₹ 3 lakh crore daily post-June policy (RBI, 2025b). However, FX interventions subsequently absorbed a portion of this liquidity.

### Foreign-Exchange Stabilization Measures

To mitigate rupee volatility, the RBI sold approximately USD 3–5 billion through spot and forward interventions (Reuters, 2025a). It also conducted pre-market operations to smooth intraday currency movement (Reuters, 2025b).

### Inflation-Targeting Framework

The RBI reaffirmed its commitment to the 4 % ± 2 % inflation target, rejecting proposals to revise it upward (Indian Express, 2025). This reinforced its credibility and forward-guidance consistency.

## Discussion and Analysis

### 1 Growth–Inflation Balance

The simultaneous pursuit of price stability and growth support illustrates RBI's pragmatic approach. The rate cut provided a mild boost to credit and investment, while the neutral stance avoided excess liquidity that could reignite inflationary pressures.

### 2 Transmission Constraints

Despite liquidity surplus, credit transmission remains partial due to structural rigidities in banking. Studies by the Bank for International Settlements (BIS, 2024) confirm weak pass-through in emerging markets, including India.

### 3 External Sector Vulnerability

FX interventions highlight the tight coupling between global factors and domestic liquidity. As liquidity is absorbed via dollar sales, the expansionary impact of CRR cuts becomes transient.

### 4 Credibility and Framework Stability

Maintaining a consistent inflation-targeting framework enhances investor confidence and anchors expectations. Policy credibility remains a cornerstone of effective monetary management.

## Findings

1. The RBI's 2025 monetary stance successfully balanced inflation control with moderate growth stimulus.
2. Liquidity measures improved short-term market conditions but were partly neutralized by FX interventions.
3. Inflation-targeting credibility remains a central pillar of India's monetary framework.
4. Policy transmission and structural banking issues continue to limit the full impact of rate adjustments.

## CONCLUSION:

The RBI's 2025 monetary policy represents a calibrated balance of growth and stability objectives. The combination of rate cuts, reserve-ratio reduction, and currency-market operations demonstrates flexibility in policy tools. However, transmission bottlenecks and external pressures highlight the limits of monetary policy alone. Strengthening credit channels, coordination with fiscal policy, and maintaining the inflation-targeting framework will be vital for sustained economic stability.

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