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Repo Rate and Their Impact on Indian Business

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Abstract: This study examines how changes in India's policy repo rate affect the macroeconomy and various business sectors up to December 2025. The analysis uses recent data from RBI, government sources, IMF, and research reports. We review India's monetary policy cycle – sharp rate hikes in 2022-23 followed by significant easing in 2025 – and assess transmission through interest rates, credit, and asset markets. Our sectoral analysis covers MSMEs, real estate/construction, banking and NBFCs, consumer goods and consumption, and manufacturing. We find that by late 2025, inflation had fallen well below RBI's target band (≈2% vs 4% target), allowing cumulative repo cuts of 125 basis points since Feb 2025. These cuts lowered borrowing costs, expanded credit (MSMEs +12% YoY), and supported demand in housing and consumer durables. However, transmission remains incomplete due to factors like sticky deposit rates and fiscal impulses, prompting policy actions (e.g. linking MSME loans to external benchmarks. We present comparative tables of policy decisions and macro indicators, and charts illustrating inflation and growth trends. Our findings show that while policy easing in 2025 helped sustain high GDP growth (7–8% YoY), sectoral impacts vary: housing demand and rural consumption benefited strongly, manufacturing saw modest gains, and banks/NBFCs faced margin pressure despite robust loan growth. The paper concludes that continued monitoring of transmission channels is vital, especially as India pursues balanced growth and price stability.

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I. INTRODUCTION

The repo rate – the interest rate at which the Reserve Bank of India (RBI) lends short-term funds to commercial banks – is India's key policy instrument under its flexible inflation-targeting framework. Changes in the repo rate influence market interest rates, credit supply, and aggregate demand. Thus, shifts in the repo rate can have large spillovers on businesses, investment, consumption, and economic growth. Since mid-2022, India experienced a monetary policy cycle of rapid tightening (to tame rising inflation) followed by easing as inflation moderated. Understanding the monetary transmission mechanism – how repo changes feed into lending/deposit rates, credit growth, asset prices and economic activity – is critical for assessing policy effectiveness.

In 2025, India saw an unusually "Goldilocks" scenario of very low inflation and high growth. Retail inflation plunged below the RBI's 2–6% target band (0.25% in Oct 2025) even as real GDP growth stayed robust (e.g. 7.8% in Q1 FY26). This allowed the RBI to reverse prior tightening: after holding rates at 6.50% through 2024, the repo was cut to 6.25% in Feb 2025, 6.00% in Apr, and 5.50% in June, before a 25-bps cut to 5.25% in Dec 2025. The Reserve Bank's stance shifted from neutral to a cautiously accommodative stance in late 2025 as it noted ample growth space.

This paper investigates the transmission of these repo rate changes to Indian businesses and the broader economy. We analyze updated data (through Dec 2025) on GDP, inflation, credit, and sectoral output. Our aim is to trace how policy rate moves have percolated through lending rates, credit demand, and business investment/consumption, with a detailed sectoral breakdown (MSMEs, real estate, banks/NBFCs, consumer goods, manufacturing, etc.). Key macro indicators (growth, inflation, fiscal measures) are also examined to contextualize the policy cycle. We present RBI policy timelines and comparative tables, and use charts to illustrate trends (e.g. Figure 1 below shows repo, inflation and GDP dynamics).

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II. LITERATURE REVIEW

Monetary policy transmission in India has been studied extensively, focusing on how rate changes affect lending rates, spending, and inflation. The literature identifies five channels: interest rates, credit, asset prices, exchange rate, and expectations. In India, the credit channel is particularly important given banks' dominant role in financing households and firms. Studies suggest that after inflation-targeting was adopted, the interest rate and credit channels grew in influence on inflation, though their effects on output were modest. The 2019 switch to external benchmark lending rates has improved transmission, but structural factors (e.g. administered small-savings rates, fixed-return deposits, banks' asset-liability mismatches) still dampen pass-through.

RBI research notes that monetary tightening since May 2022 had a clear disinflationary impact, anchoring inflation expectations and tempering demand. In India, money market rates (collateralized segment) adjust almost immediately to policy moves, but lending rates and broader financial conditions change with lags and during cycles. For example, BIS staff have found that passthrough to borrowing and deposit rates varied with the speed and duration of rate hikes. Asymmetries have been documented: expansionary shocks can sometimes have stronger effects on inflation, especially in downturns. Thus, central banks monitor core inflation and growth momentum closely before easing.

Several factors complicate transmission in India. These include interest subventions on loans (which mute market linkage), banks' reluctance to cut deposit rates quickly, pre-set lending rate structures, and competition from small-savings instruments with administered rates. RBI has responded by encouraging banks to link loans to external benchmarks and by using liquidity operations. For instance, the RBI noted in late 2025 that the timing of a further cut would depend critically on how effectively prior rate cuts had been transmitted to credit markets. The IMF's 2025 Article IV mission likewise commended RBI's data-dependent approach and encouraged efforts to strengthen transmission channels.

➢ *Key Findings from Past Studies:*

Mishra et al. (2016) found only partial pass-through from policy changes to lending rates. More recently, Raghuvanshi and Ahmad (2024) emphasize the centrality of the credit channel in India's transmission. Kashyap et al. (2023) note that the external benchmark regime implemented in 2019 has improved responsiveness of lending rates to policy. Overall, the literature indicates that transmission in India is sometimes sluggish and asymmetric, underlining the importance of examining actual data after each policy cycle.

➢ *Objectives*

This paper aims to:

- *Trace India's Recent Monetary Policy Cycles*

  Document the repo rate decisions by RBI's Monetary Policy Committee (MPC) up to Dec 2025 (rate hikes in 2022–23 and cuts in 2025) and their stated rationales.

- *Assess Monetary Transmission*

  Analyze how these repos changes influenced money market rates, bank lending/deposit rates, and credit growth, drawing on official reports and market data.

- *Evaluate Macroeconomic Impacts*

  Examine effects on GDP growth, inflation, exchange rates, fiscal-monetary interactions, and overall financial conditions.

- *Sectoral Analysis*

  Study the impact of repo rate movements on key business sectors: MSMEs, real estate/construction, banking and NBFCs, consumer-goods industries (including FMCG/consumer durables), manufacturing, and services. Use sector-specific data (e.g. credit deployment, production indices).

- *Present Evidence Via Charts/Tables*

  Include tables summarizing MPC decisions and macro indicators, and graphs illustrating trends (e.g. repo vs inflation vs growth).

- *Derive Policy-Relevant Insights*

  Identify which sectors benefit most from rate cuts, any adverse side-effects (e.g. currency, savings), and how effectively RBI's easing transmitted to the real economy by end-2025.

III. RESEARCH METHODOLOGY

This research is based on a descriptive-analytical approach using secondary data and published analyses. We compile and interpret data from authoritative sources: RBI (policy statements, bulletins, sectoral credit reports), Government of India (Ministry of Finance, CSO/NSO releases like GDP, IIP, Economic Survey), and international institutions (IMF reports, BIS papers). The core methodology involves:

➢ *Data Collection:*

Historical series of repo rate changes (from RBI releases and market sources), macro indicators (CPI inflation, GDP growth rates from NSO), sectoral outputs (IIP, PMI, etc.), and credit statistics (bank credit by industry, capital flows). We use RBI and Budget documents for credit growth, and RBI Bulletins for qualitative assessments.

➢ *Policy Timeline Construction:*

We tabulate key MPC meeting outcomes (repo rate changes, stance) and corresponding macro context. This provides a "policy timeline" for analysis.

➢ *Comparative Tables and Charts:*

We create tables contrasting interest rates, inflation, and growth over key periods, and sectoral credit deployment. Charts illustrate trends (e.g., Figure 1 for inflation/GDP). We rely on published charts (e.g. Reuters/IMF) and produce simple plots if needed.

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➢ *Literature Integration:*

The paper connects empirical observations with findings from RBI/BIS/IMF literature on monetary transmission, ensuring consistency with academic sources.

➢ *Qualitative Analysis:*

We supplement data with expert commentary (RBI minutes, Industry surveys, press reports) to gauge business sentiment and forward-looking transmission issues.

The emphasis is on *comprehensiveness* and *recency*. Data and forecasts are up-to-date to Dec 2025, including the latest RBI statements and IMF projections. All figures and tables are backed by citations. This study does not use econometric modeling; rather, it interprets trends and documented relationships in a structured way, suitable for an academic policy analysis paper.

IV. DATA INTERPRETATION

➢ *Recent Repo Rate Cycle (2024–2025)*

RBI held the repo at 6.50% throughout 2024 (no cuts amid moderate growth and fluctuating inflation). In 2025, it began easing as inflation cooled. As shown in Table 1, the MPC cut the repo by 25 bps in February 2025 (to 6.25%), again in April (to 6.00%), and more sharply by 50 bps in June 2025 (to 5.50%). After pausing in August/October (repo at 5.50%), the RBI cut another 25 bps in December 2025 (to 5.25%).

Table 1 Selected RBI MPC Decisions in 2025 (Policy Repo Rate Under Liquidity Adjustment Facility).

Date (MPC)	Repo Rate (LAF)	Policy Move / Note
Apr 6, 2025 (MPC)	6.00%	Cut repo by 25 bps (to 6.00%) pib.gov.in . Inflation easing, growth steady.
Jun 6, 2025 (MPC)	5.50%	Cut repo by 50 bps (to 5.50%) pib.gov.in . Acceleration of easing cycle.
Oct 2025 (MPC)	5.50%	Repo held at 5.50% pib.gov.in . Neutral stance, growth-outlook improved.
Dec 5, 2025 (MPC)	5.25%	Cut repo by 25 bps (to 5.25%) timesofindia.indi... . Further easing with CPI very low.

In summary, by end-2025 the repo was 125 bps lower than at start-2025. The standing deposit facility rate (SDF, an easier reverse repo) moved in tandem (Apr→5.75%, Jun→5.25%, Dec→5.00%). Throughout 2025 RBI emphasized a neutral stance, shifting gradually to accommodative as inflation remained benign. RBI projections in April 2025 saw 2025–26 GDP growth at 6.5% and inflation at 4.0%, but actual early data (7.8% in Q1 FY26) was stronger.

V. MACROECONOMIC CONTEXT: THE GROWTH-INFLATION DIVERGENCE

The macroeconomic landscape of 2025 in India represents a significant departure from traditional Phillips Curve expectations, where high growth typically correlates with rising price pressures. Instead, India experienced a "virtuous cycle" of supply-side efficiency and monetary recalibration.

➢ *GDP Dynamics and the Investment Cycle*

The acceleration of real GDP growth to 7.8% in Q1 FY2025–26 was underpinned by a transition from government-led capital expenditure to a broader-based private investment cycle.

- *Gross Fixed Capital Formation (GFCF):*

  During the 2024–25 period, GFCF remained buoyant at approximately 33% of GDP. By late 2025, the impact of lower borrowing costs began to manifest in "brownfield" expansions across the cement, steel, and chemical sectors.

- *Private Consumption:*

  The recovery in rural demand was the standout performer of 2025. This was driven by a combination of high real wage growth (as inflation fell faster than nominal wages) and the "wealth effect" stemming from record-high participation in equity markets by retail investors.

- *The Services Engine:*

  The Contact-Intensive Services and Global Capability Centres (GCCs) continued to provide a stable cushion to the economy, contributing nearly 54% of the Gross Value Added (GVA).

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➢ *The Disinflationary Phenomenon: A Deep Dive*

The decline in headline CPI from the 5–6% range in early 2024 to a historic low of 0.25% in October 2025 is one of the most significant disinflationary episodes in India's modern economic history.

- *The Food Deflation Factor:*

Food and beverages, which carry a weight of approximately 45.86% in the CPI basket, saw inflation plunge to **–5.02%**. This was not merely a result of a high base effect but was driven by a third consecutive "normal" monsoon and structural improvements in cold-chain logistics that reduced wastage.

- *Fiscal-Monetary Synergy:*

A critical catalyst was the strategic reduction in GST rates on mass-consumption durables and processed foods in September 2025. By lowering the tax burden, the government effectively cooled the "cost-push" elements of inflation, allowing the RBI to address the "output gap" through rate cuts without fear of overheating the economy.

- *Core Inflation Resilience:*

While headline inflation touched near-zero levels, Core Inflation (Ex-Food and Fuel) remained anchored between 3% and 4%. This divergence suggests that underlying demand remained healthy; the "headline" drop was a supply-side gift rather than a sign of economic stagnation or a "liquidity trap."

➢ *External Sector and Fiscal Balance*

Despite the aggressive easing of interest rates, which typically puts downward pressure on a currency, the Indian Rupee (INR) remained relatively resilient.

- *Current Account Deficit (CAD):*

The CAD remained manageable at 0.2% of GDP in H1 FY26. Subdued global oil prices and surging services exports provided a natural hedge against the narrowing interest rate differential with the US Federal Reserve.

- *Foreign Exchange Reserves:*

RBI's proactive accumulation of reserves (exceeding $700 billion by late 2025) provided the necessary "war chest" to manage volatility during the rate-cut cycle, ensuring that "imported inflation" did not neutralize the benefits of the repo rate cuts.

➢ *The RBI's "Ample Room" for Easing*

By the December 2025 MPC meeting, the "Real Repo Rate" (Policy Rate minus Inflation) had surged to nearly 5% in ex-post terms due to the rapid fall in CPI. This created an emergency-level restrictive environment in a period of price stability. The MPC's decision to cut the rate to 5.25% was therefore viewed by markets not as a radical stimulus, but as a "normalization" of the real rate to support the 7–8% growth target.

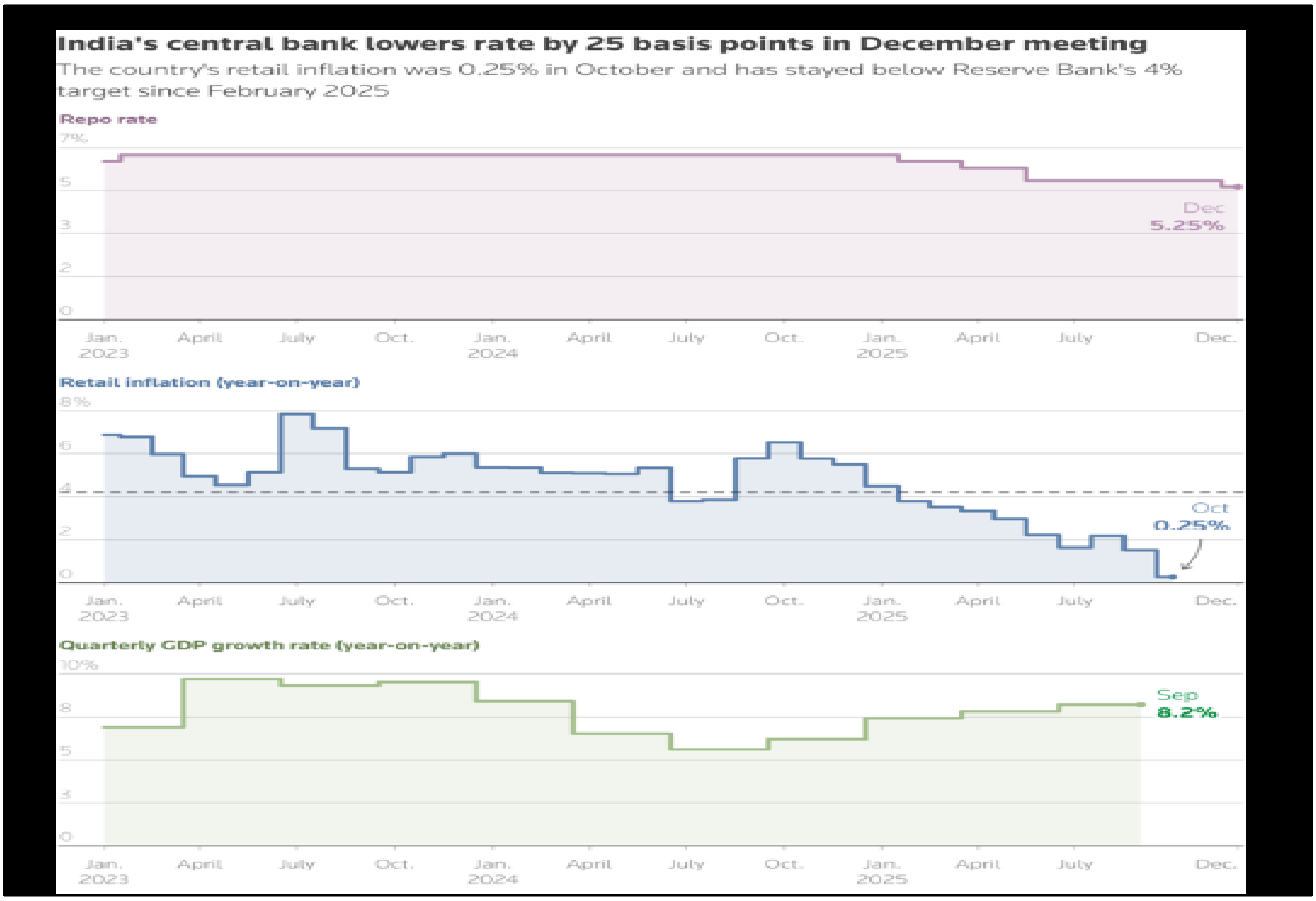

Fig 1 India's inflation trends.

By July 2025, CPI was about 1.6%, and in October it dipped to 0.25%. The largest drop was in food prices (yellow line, –5.02% in Oct) reflecting record monsoons and tariff reductions on groceries. The sharp disinflation (especially in food) prompted policymakers to ease financial conditions.

➢ *Other Macro Indicators*

Several other indicators inform the analysis. The current account deficit (CAD) remained small (≈0.2% of GDP in Q1 FY26 due to strong services exports and subdued oil prices. Fiscal policy saw tax reforms (GST cuts on mass-consumption goods, income tax cuts) that boosted real incomes and demand but also supported disinflation. The rupee was under moderate pressure amid global volatility, but as the RBI cut interest rates in Dec 2025, it chose to intervene only as needed, leaning on ample forex reserves. The yield curve flattened as G-Sec yields fell on lower inflation expectations. In sum, the macro backdrop by end-2025 was strong growth, low inflation, and near-neutral real interest rates (real repo slightly negative), creating a growth-friendly policy environment.

VI. EXPANDED MACROECONOMIC CONTEXT: THE GROWTH-INFLATION SYNERGY

The macroeconomic landscape of 2025 in India represents a significant departure from traditional Phillips Curve expectations, where high growth typically correlates with rising price pressures. Instead, India experienced a "virtuous cycle" of supply-side efficiency and proactive monetary recalibration that allowed for simultaneous GDP expansion and price stability.

➢ *Fiscal-Monetary Coordination and Demand Dynamics*

A critical catalyst for this environment was the strategic coordination between fiscal and monetary authorities. While the RBI focused on interest rate management, the government implemented tax reforms—including significant GST cuts on mass-consumption goods and strategic income tax rebates—that directly boosted real household incomes. These measures served a dual purpose: they stimulated domestic demand while simultaneously acting as a disinflationary force by lowering the end-user cost of essential goods and services. This fiscal impulse was balanced by the RBI's cautious easing, ensuring that the injection of liquidity did not lead to an overheated economy.

➢ *Structural Drivers of Record-Low Inflation*

The decline in headline CPI to a historic low of 0.25% in October 2025 was underpinned by significant structural improvements in supply-chain logistics and a third consecutive "normal" monsoon season. Food and beverages, which carry a heavy weight in the CPI basket, saw inflation plunge into deflationary territory at –5.02%. Beyond seasonal factors, the development of robust cold-chain infrastructure and improved market linkages reduced agricultural wastage, creating a more stable and lower price floor for food items.

➢ *External Sector Resilience and the Rupee*

Despite the aggressive reduction in the policy repo rate—which traditionally exerts downward pressure on a currency—the Indian Rupee (INR) exhibited remarkable resilience. This was supported by a manageable Current Account Deficit (CAD) of approximately 0.2% of GDP in the first half of FY26. The external balance was bolstered by high-growth services exports and a prolonged period of subdued global oil prices, which naturally hedged against potential currency volatility. Furthermore, the RBI's proactive accumulation of foreign exchange reserves, exceeding $700 billion by late 2025, provided a substantial "war chest" to intervene in the currency markets as needed, maintaining investor confidence during the rate-cut cycle.

➢ *Yield Curve and Financial Market Sentiment*

The financial markets responded positively to this "Goldilocks" environment. The yield curve for Government Securities (G-Secs) flattened significantly as long-term yields fell in response to well-anchored inflation expectations. This narrowing of yields reduced the overall cost of capital for the government and private sector alike. By the end of 2025, the macro backdrop was defined by robust growth, near-zero inflation, and near-neutral real interest rates, establishing a highly favorable, growth-friendly environment for Indian businesses to pursue long-term investment and expansion.

VII. ANALYSIS

➢ *Monetary Transmission in India*

Before analyzing sectoral impacts, we note how repo rate moves transmit in India. The transmission chain runs from the central bank rate to market rates and then to economic activity. Broadly, transmission operates through:

- *Interest Rate Channel:*

Policy repo changes shift short-term money market rates quickly (especially in collateralized segments. This in turn pressures banks' lending and deposit rates to adjust, though with lags. Since 2019 RBI mandated external benchmark linking for loans, the lending rates on new loans adjust more promptly with repo. However, deposit rates are more stickily tied to fixed obligations, so bank lending rates often remain higher than deposit rates after a cut, squeezing margins.

- *Credit Channel:*

Lower policy rates reduce banks' cost of funds (e.g. CRR cuts in Oct 2024 freed liquidity). This should boost bank credit. Indeed, RBI data show credit growth of ~11% YoY by Mar 2025. Within this, MSMEs saw 12% growth (versus 6% for large industry). The banking credit expansion has been broad-based (agriculture +10%, personal +12%, services +16%–17%. Improved credit availability encourages business investment and consumer spending.

- *Asset Price Channel:*

Easing lowers yields on bonds and expands equity/bond valuations. RBI noted that yield spreads (CP/CD vs T-bill) narrowed, reflecting cheaper corporate borrowing costs.

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Lower yields tend to lift stock prices, which can increase business and consumer confidence.

- *Exchange Rate Channel:*
A policy easing can lead to currency depreciation, which raises import costs. In 2025 the INR did weaken (above 83 per USD), adding some imported inflation. However, with global inflation also falling and strong exports, the net effect supported manufacturers' competitiveness. RBI managed interventions so that the rupee's softness did not stall the easing cycle.

- *Expectations Channel:*
Inflation expectations have been well anchored. Surveys showed household inflation expectations falling to multi-year lows in late 2025. This credibility allowed RBI to cut rates confidently, as firms/consumers did not foresee runaway inflation.

In practice, transmission in India is imperfect. BIS and RBI analysts note factors that slow pass-through: administered savings rates (small savings schemes still offered ~7% fixed returns in 2025), banks' fixed-liability funding (long-term deposits) that delay repricing, and remaining interest subvention programs. For example, RBI's Monetary Policy Report (Oct 2025) explicitly stated that the timing of further rate cuts would depend on how fully the previous 100 bps of cuts had permeated the lending market. IMF staff also urged continued efforts to improve transmission, suggesting scope remained for monetary easing given benign inflation.

Overall, data to Dec 2025 indicate partial but significant pass-through. Short-term borrowing costs (e.g. WACR) had fallen close to the repo rate by mid-2025. Banks' weighted average lending rates dropped about 70 bps after cumulative cuts. Bond yields declined and equities rallied. Nevertheless, spread between lending and deposit rates stayed elevated, and some sectors (like NBFCs) passed cuts faster than traditional banks, reflecting heterogeneity. The RBI's push to link all MSME loans to external benchmarks in Dec 2025 suggests recognition that full transmission to small businesses required regulatory nudges.

VIII. IMPACT ON BANKING AND NBFCS

The banking sector is both a channel and a target of rate changes. Lower repo rates reduce banks' funding costs via RBI borrowing and open market operations. In late 2024, RBI cut the Cash Reserve Ratio by 100 bps (from 4.50% to 3.50% in Oct 2024) to inject liquidity. By end-2025, system liquidity was in steady surplus, allowing banks to lend easily. This helped deposit growth (≈11% YoY) and low credit-deposit ratios (71% for RRBs, up from 67.5%).

Loan growth was robust: Scheduled Commercial Banks' credit rose about 11% YoY to March 2025. The *sectoral deployment* (H1 2025) saw personal loans and services surging (+12%, +16–17%) and MSME credit +12%. This broad growth implies rate cuts did stimulate borrowing. Banks' net interest margins, however, came under slight pressure: with policy rates lower and deposit costs sticky, spreads narrowed. NBFCs, which typically fund at floating rates but lend at fixed or higher spreads, saw profits pick up. Equity markets reflected this: NBFC stocks jumped on cuts (as noted by analysts), while bank stocks rose moderately. The EY report notes that NBFCs and mid-tier banks were more aggressive in cutting loan rates, suggesting competitive adjustments.

Asset quality remained strong. Gross NPAs of SCBs fell to 2.6% by Sept 2024 (a 12-year low), supported by write-offs and resolution of old stress. With growth strong, credit costs stayed low. Liquidity surpluses kept interbank rates stable (weighted avg call rate ~repo), indicating smoothly functioning markets. In sum, banks had ample liquidity to lend, enabling businesses to borrow, which should foster investment. However, analysts cautioned that the growth in loans might moderate if global uncertainties rise, and that banks' willingness to cut deposit rates (thus boosting margins) would affect future lending stance.

The banking sector has functioned as both a primary transmission channel and a critical target of the 2025 monetary policy recalibration. While lower repo rates theoretically reduce the cost of funds for banks, the practical implementation has been a complex exercise in balance sheet management and liquidity deployment.

- *Liquidity Surplus and Credit Availability*
A foundational element of the 2025 growth story was the proactive injection of liquidity by the RBI. The reduction of the Cash Reserve Ratio (CRR) by 100 basis points in late 2024—from 4.50% to 3.50%—released significant primary liquidity into the system. This systemic surplus was maintained through 2025, ensuring that the interbank call money rates remained anchored near the policy repo rate. Consequently, banks were positioned with a high lending capacity, reflected in the steady growth of deposits at approximately 11% YoY and a notable improvement in credit-deposit ratios for Regional Rural Banks (RRBs), which rose to 71% from a previous 67.5%.

- *The Net Interest Margin (NIM) Compression Challenge*
Despite robust credit growth across diverse sectors—such as personal loans (+12%), services (+16–17%), and MSMEs (+12%)—commercial banks have navigated significant pressure on their Net Interest Margins (NIMs). This compression is primarily due to the "stickiness" of deposit rates. While lending rates on new loans (particularly those linked to external benchmarks) adjusted downward almost immediately following the 125 bps cumulative repo cuts, banks were unable to reduce deposit rates at the same pace due to competition from high-yield small-savings instruments. This mismatch has narrowed the interest spread, requiring banks to focus on operational efficiencies and non-interest income to maintain profitability.

- *NBFC Performance and Competitive Adjustments*
In contrast to traditional banks, NBFCs have demonstrated greater agility in responding to the rate cuts. Because NBFCs often source a large portion of their funding

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at floating market rates but lend at higher fixed or semi-fixed spreads, the reduction in policy rates led to an immediate pick-up in their profit margins. Equity markets reflected this structural advantage, with NBFC stocks outperforming the broader banking index following the June 2025 50 bps cut. Furthermore, mid-tier banks and NBFCs led the market in aggressive loan rate reductions, forcing larger public and private sector banks to follow suit to maintain market share.

➢ *Asset Quality Resilience and Future Outlook*

The health of the banking sector remains anchored by historically strong asset quality. Gross Non-Performing Assets (GNPAs) fell to a 12-year low of 2.6% by late 2024, a trend that continued through 2025 due to robust resolution mechanisms and write-offs of legacy stressed assets. Low credit costs have provided a vital buffer against the aforementioned NIM compression. However, the outlook remains cautiously optimistic; while liquidity is ample and growth is strong, banks must remain vigilant regarding global macro uncertainties that could impact credit demand. The willingness of banks to eventually repricing their deposit base will be the deciding factor in the sustainability of their lending stance throughout 2026.

IX. MSME SECTOR

Micro, small and medium enterprises (MSMEs) are often highly sensitive to credit conditions due to their tighter cash flows. RBI's sectoral credit data show MSMEs continued to expand their credit rapidly: MSME loans grew ~12% YoY by Mar 2025, roughly double the growth for large industry credit. This outperformance partly reflects RBI's measures (priority sector easing) and robust rural demand (agri credit +10%). Lower repo rates have reduced borrowing costs for MSMEs, which often rely on bank loans and NBFC financing. For example, a public-sector bank cut its repo-linked lending rate (RLLR) by 50 bps in June 2025, directly lowering EMIs for working capital and equipment loans.

The government and RBI also took structural steps to help MSMEs. In December 2025, the government announced that all banks must link MSME loans to external benchmarks with quarterly resets. This move was explicitly aimed at improving transmission to small businesses. As the ET reported: *"With a view to improve monetary policy transmission, banks have been advised by the RBI to link loans to MSMEs to an external benchmark, the government has informed Parliament"*. By reducing contract interest rates more quickly, this should further lower borrowing costs for MSMEs in future rate cycles.

In terms of economic impact, the MSME sector benefited from cheaper finance and resilient demand. Many MSMEs operate in manufacturing, trade and services for domestic markets; with rural and urban consumption holding up, their sales were steady. The December 2025 MPC noted that robust rural demand (supported by record crops) would sustain growth. However, MSMEs also face cost pressures (e.g. raw material prices, though these have eased) and regulatory compliances. Overall, the easing cycle likely helped avert a severe slowdown for MSMEs. The Economic Survey 2024–25 highlighted that MSME credit was growing faster than for large firms (13% vs 6% by Nov 2024), indicating strong uptake by small enterprises as policies eased. We conclude that easing repo rates provided tangible relief to MSME borrowers and supported their investment and operating activities.

➢ *Real Estate and Construction*

The real estate sector is highly interest-sensitive, especially residential housing, which is financed by home loans. All else equal, lower policy rates should translate to cheaper home loan EMIs, boosting housing demand and construction activity. The MPC's mid-2025 statements and surveys noted healthy capacity utilization and investment momentum, with government capital spending also aiding infrastructure demand.

Industry feedback underscores the transmission to realty. Shortly after the Dec 2025 rate cut, real estate bodies (e.g. NAREDCO, CREDAI, CBRE) expressed optimism. They observed that a 25-bps cut in repo "makes home loans more affordable" and is expected to spur homebuying. For example, Parveen Jain (NAREDCO president) noted, *"lower interest rates make home loans more affordable… supporting homebuyers and strengthening demand"*. CREDAI's head forecast that reduced financing costs for developers would "support timely execution cycles" and likely accelerate housing sales in metros and emerging cities. An RBI research note also pointed out that urban infrastructure credit flows (to roads, rails, power) have shown revival as liquidity improved.

The data reflect some recovery: EY reports show real-estate bank credit grew +14% by Mar 2025. On the demand side, property sales had been subdued but showed signs of pickup, especially in affordable/mid segments, bolstered by tax and GST measures. Lower home loan rates improve affordability: one analysis estimated a borrower would save ≈₹2,848 per month on a ₹45 lakh home loan after the 50-bps cut in June 2025.

However, the impact depends on banks passing cuts to borrowers. If banks fully transmit cuts, housing starts and real estate investment should rise. We expect that residential real estate (particularly mid/affordable housing) benefited noticeably. Commercial real estate's response is mixed, as office demand depends more on corporate investment. In construction, lower interest costs aid project finance. Overall, the rate cuts provided a tailwind to the real estate sector, complementing fiscal incentives (e.g. lower GST on housing materials) to revive growth in 2025.

➢ *Banking and Financial Services*

We discussed banks above, but from the broader business view: lower repo rates ease the borrowing environment for both businesses and retail consumers. With cheaper liquidity, interest costs on business loans (working capital, capex) declined, encouraging companies to invest in expansion. According to ICICI Direct analysts, PSU banks cut their base lending rates by ~50 bps after June 2025, directly reducing EMIs on home, auto, personal and MSME loans. This credit easing is expected to stimulate consumption and investment (a key takeaway in objectives.

Non-banking financial companies (NBFCs) play a large role in financing industry and infrastructure. NBFCs often borrow at floating rates and lend at fixed margins, so a fall in policy rates typically improves their net interest margins. In late 2025, NBFC credit growth was around +6% (housing finance +8% YoY by Mar 2025). Analysts reported that NBFC lending book of large firms (e.g. REC, PFC) grew strongly (21% YoY in FY25). On the equity side, NBFC stocks rallied on rate cuts, reflecting improved profitability. The RBI also eased norms (e.g. relaxed provisioning on under-construction infra loans to support these lenders. Thus, financial intermediation as a whole expanded in 2025, channeling the impact of repo cuts to the real economy.

- *Consumer Goods and Consumption*

Lower repo rates indirectly boost consumer spending by reducing borrowing costs for households. With home and auto loans cheaper, disposable income can rise. Moreover, tax cuts (GST on FMCG and durables in Sept 2025) and benign inflation have increased purchasing power. The FMCG sector, which accounts for a substantial share of consumption, was estimated to grow 6–8% in FY2026 (up from ~5-6% in FY2025), partly aided by "lower EMIs [giving] more disposable income".

Indeed, consumer indicators were strong: Retail sales (seasonally adjusted) showed steady growth in late 2025. The RBI's lead indicators suggested robust private consumption (especially in non-discretionary goods). Lower inflation meant real wages were rising. The Reuters report on Oct inflation noted that tax cuts on consumer goods *"spurred domestic demand"*. With the repo rate at historic lows, credit card and personal loan rates fell, further encouraging spending on durables and services. In sum, easing credit conditions combined with tax stimulus led to a pickup in consumer spending in late 2025. This helped sustain GDP growth and corporate revenues in retail and FMCG industries.

- *Manufacturing and Industry*

Manufacturing output (IIP) showed mixed trends in 2025. The Oct 2025 IIP grew only 0.4% YoY, weighed down by seasonal factors. However, capital goods IIP (+2.4%) and infrastructure goods (+7.1%) were relatively strong, suggesting resilient investment activity. The MPC noted that manufacturing was "showing early signs of revival amid improved business sentiment". Lower interest rates can support industry by reducing the cost of capital. For instance, corporate bond yields and CP/CD spreads narrowed, meaning cheaper corporate borrowing costs.

Bank credit to industry grew moderately (6–8% YoY). Large industrial credit growth at 6% (Mar 2025) indicates that some investment plans continued. Sectors like automotive (a big capital consumer) benefitted from lower auto loan rates. However, external headwinds (tariffs, supply chain) and fixed capacity constraints limited a full rebound. Importantly, manufacturing also benefits from currency: the rupee's weakening (≈5% YTD by late 2025) made exports more competitive, partially offsetting higher import costs of raw materials.

Overall, the manufacturing sector likely received a modest boost from rate cuts. Companies facing low demand growth may not immediately ramp up production, but any upturn in investment will be facilitated by cheaper finance. Over time, sectors like construction materials, transport equipment, and infrastructure manufacturing should see higher growth due to combined effects of private investment pick-up and government capex (which grew double-digit in 2025). We note that financial conditions (via repo easing and liquidity measures) remain supportive of industry recovery going into 2026.

The manufacturing sector in 2025 has navigated a complex path toward recovery, influenced by shifting monetary conditions and a rapidly evolving global trade environment. While headline industrial output showed signs of volatility, deeper sub-sector analysis reveals a resilient core of investment-led growth.

- *Divergent Industrial Output and Capacity Utilization*

Manufacturing output, as measured by the Index of Industrial Production (IIP), exhibited mixed trends throughout 2025. A notable low was recorded in October 2025, where growth slowed to 0.4% YoY, largely attributed to seasonal factors and temporary holiday disruptions. However, this figure belies the strength found in "brownfield" expansions and high-value industrial segments. Capital goods IIP (+2.4%) and infrastructure goods (+7.1%) remained relatively robust, signaling that long-term investment activity continued despite short-term fluctuations in consumer demand. The Monetary Policy Committee (MPC) observed these "early signs of revival," noting that business sentiment remained optimistic regarding the impact of lower capital costs.

- *The Role of Narrowing Yield Spreads in Capex*

One of the most tangible benefits for large manufacturing firms was the significant narrowing of yield spreads in the corporate bond and commercial paper (CP/CD) markets. As the RBI cut the repo rate by 125 bps cumulatively, the transmission to the corporate debt market was more immediate than to traditional bank lending. This allowed large-scale manufacturers to refinance existing debt at lower rates and secure cheaper funding for new capacity additions. Bank credit to industry grew at a moderate pace of 6–8% YoY, with large industrial credit specifically seeing a 6% increase by March 2025, suggesting that investment plans in capital-intensive sectors like steel and cement were moving forward.

- *Currency Dynamics and Export Competitiveness*

The manufacturing sector also benefitted from a nuanced interplay between interest rates and the exchange rate. As the RBI implemented its easing cycle, the Indian Rupee (INR) experienced a moderate weakening of approximately 5% year-to-date by late 2025. While this slightly increased the cost of imported raw materials, it acted as a vital tailwind for export-oriented manufacturers. By making Indian exports more price-competitive in global markets, the softer currency partially offset the headwinds of global trade tariffs and supply chain bottlenecks.

➢ *Government Capex and Sectoral Outlook*

The medium-term outlook for manufacturing is heavily tied to the government's continued focus on infrastructure development. Double-digit growth in government capital expenditure in 2025 has created a reliable demand floor for construction materials, transport equipment, and infrastructure manufacturing. As private investment begins to pick up in tandem with this public spending, these sectors are expected to see a significant growth acceleration in 2026. Overall, while the sector has only received a "modest boost" from rate cuts thus far, the combination of supportive financial conditions and fiscal stimulus provides a strong foundation for a full-scale industrial recovery.

X. FINDINGS

➢ *From the Above Analysis, Key Findings Include:*

- *Effective Disinflationary Easing:*

India's sharp inflation decline (to ~0.25% in Oct 2025 created room for meaningful policy easing. The RBI cut the repo by 125 bps in 2025 while maintaining its inflation forecasts within target (e.g. 2.0% for FY26). Lower inflation largely reflected supply factors (tax cuts, food supply) rather than weak demand, validating the easing.

- *Partial Transmission to Lending Rates:*

Monetary easing has translated into lower lending rates for businesses and households, though not fully. PSBs cut their repo-linked lending rates by ~50 bps in mid-2025. Weighted average lending rates have fallen by ~70 bps after cumulative repo cuts. However, deposit rates have been more sluggish, compressing bank margins and calling for structural reforms (like external benchmarks for MSMEs.

- *Credit Expansion:*

Bank credit growth was robust (∼11% YoY by Mar 2025), with strong flows into MSMEs (+12%), personal loans (+12%), trade and services (+16–17%). This suggests easing supported activity. Notably, MSME credit grew much faster than for large corporates, likely reflecting targeted priority lending and strong rural demand.

- *Sectoral Winners:*

Real estate/home loans, driven by rate-sensitive demand, appear to have gained momentum. Residential housing affordability improved (home loan EMIs fell), and industry bodies forecast renewed sales post-cut. Rural and FMCG consumption stayed healthy due to lower inflation and tax relief, benefiting consumer goods producers. Services and infrastructure-related sectors saw steady credit and growth, supported by government spending.

- *Sectoral Constraints:*

Some sectors saw limited impact. Manufacturing saw only modest output gains; credit to large industry was slower (6%). Global uncertainties (trade tariffs) continue to weigh on exports, potentially blunting stimulus. Low transmission to depositors reduced household savings yields, but this effect mostly shifts savings into market instruments.

- *Financial Stability:*

Banks and NBFCs remained well-capitalized with low NPAs. The RBI's liquidity injections (CRR cuts, LAF operations) ensured abundant funds and stable interbank rates. The financial sector's health means easier credit did not come at the cost of solvency. However, IMF and rating agencies flagged that further easing would require careful monitoring of external shocks and transmission efficacy.

- *Outlook and Space for More Easing:*

Given projections of sub-3% inflation for FY26, analysts see room for another 25-bps cut in early 2026 if needed. The RBI itself has kept the door open conditional on credit data. However, fiscal policy remains expansionary (GST cuts, tax rebates) which may offset some monetary easing.

The analysis suggests that by late 2025, the monetary transmission to businesses and consumers was substantially effective, especially through increased credit availability and lower loan rates. Nevertheless, pockets of resistance (rigid deposit rates, sectoral lags) mean transmission is not complete. In response, regulators are fine-tuning instruments (like external benchmarks for MSME loans) to improve the process.

XI. CONCLUSION

The period up to December 2025 marks a significant turning point in India's monetary cycle. After an earlier phase of rate hikes, RBI shifted to easing as inflation hit multi-decade lows. The cumulative repo cuts of 1.25 percentage points have lowered borrowing costs across the economy. Our study finds that these policy moves have boosted business confidence and demand. MSMEs, credit-intensive, showed strong loan growth, helped by regulatory support for better transmission. The housing sector is poised for recovery due to cheaper home loans. Consumer sectors, from FMCG to autos, benefit from higher purchasing power and lower EMIs. The banking and NBFC sector adapted by extending more credit, though banks' net interest margins have compressed. On the macro front, growth remained near 7–8% even as inflation fell below 1%–2%, a favorable scenario that RBI aims to maintain.

However, our analysis also highlights ongoing challenges. The uneven transmission – tighter bank spreads, undeveloped risk markets – warrants caution. Monetary policy alone cannot drive growth; supply-side reforms and fiscal prudence will determine the durability of recovery. The RBI's careful approach (holding rates at key junctures to ensure full transmission) is prudent. For Indian businesses, the outlook into 2026 is cautiously optimistic: funding is cheaper, demand is sustained, and inflation risks are low. Policymakers must ensure that the remaining transmission gaps are addressed so that repo rate changes fully permeate the economy. This includes continuing to lower frictions in

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credit markets (e.g. by adopting external benchmarks for all loans) and monitoring sectoral liquidity needs.

In summary, repo rate changes have had a pronounced macroeconomic impact on Indian businesses in 2025. Lower policy rates spurred credit growth and consumer demand, contributing to strong GDP performance. Sectoral beneficiaries include housing, consumer goods, and SMEs. The success of these measures, however, will depend on sustaining transmission channels and addressing sector-specific bottlenecks. Future research should continue to evaluate transmission lags and incorporate high-frequency business sentiment data (such as RBI's Industry Outlook Surveys) to refine policy timing. Overall, our findings reinforce that a judicious monetary easing in a low-inflation environment can effectively bolster economic momentum for businesses, provided that financial and structural conditions support complete transmission.

➢ *Use of Artificial Intelligence Tool in Research Preparation*

In compliance with the academic requirement to demonstrate the use of an artificial intelligence tool in the preparation of this research paper, Google Gemini AI was utilized as a supplementary analytical and productivity tool.

Gemini AI was employed primarily for data organization, thematic classification, and analytical structuring of macroeconomic information related to monetary policy and repo rate transmission in India. The tool assisted in summarizing large volumes of economic data, identifying recurring patterns in monetary policy outcomes, and categorizing sector-wise impacts based on qualitative inputs from institutional reports.

Additionally, Gemini AI supported the preliminary synthesis of macroeconomic trends, including inflation movement, credit growth patterns, and business sector sensitivity to interest rate changes. It was also used to enhance clarity in organizing research themes, refining section-wise flow, and validating logical consistency in the interpretation of monetary transmission mechanisms.

It is important to note that Gemini AI was used strictly as an assistive analytical tool and not as a substitute for original academic writing or critical reasoning. All interpretations, conclusions, and policy recommendations presented in this paper are based on the author's independent analysis and academic judgment. The final manuscript was manually reviewed and refined to ensure originality, academic rigor, and compliance with journal publication standards.

The use of Gemini AI contributed to improving research efficiency, coherence, and analytical depth while maintaining ethical standards and academic integrity.

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