RESEARCH ARTICLE

DIGITAL PAYMENTS, POLICY TRANSMISSION, AND GROWTH: CONTEMPORARY DIMENSIONS OF MONETARY POLICY IN INDIA (2020–2025)

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ABSTRACT

This study examines how evolving monetary policy mechanisms and the proliferating use of digital payments have affected economic outcomes in India from 2020 to 2025. While the central bank's traditional instruments repo rate, reverse repo rate, liquidity management—remain pivotal, digital innovation has emerged as a major catalyst for refining monetary policy transmission. By analysing GDP growth, lending rates, inflation behaviour, and payment system modernization, the paper uncovers links between policy stance and economic momentum. Panel regression and ARDL methodologies reveal that integration of digital payments leads to improved transmission efficiency, lower lending rates, and enhanced macroeconomic stability. The findings suggest that policy makers should leverage digital financial infrastructure for more responsive and inclusive monetary policy, ensuring resilience in the face of domestic shocks and global volatility.

INTRODUCTION

In recent years, India has witnessed a remarkable transformation in its monetary policy framework, concurrent with an unprecedented surge in digital payment systems. Between 2020 and 2025, the Reserve Bank of India (RBI) has employed a dynamic policy stance, navigating economic shocks from the pandemic to geopolitical uncertainties, while leveraging rapid technological integration in the financial ecosystem. One of the landmark developments during this period has been the exponential growth of the Unified Payments Interface (UPI), which in June 2025 alone processed over 18.39 billion transactions, totaling ₹24.03 lakh crore, marking a 32% increase compared to the previous year. Today, UPI connects nearly 491 million users and 65 million merchants across 675 banks, accounting for 85% of all digital transactions in India, and is recognized as the world's leading real-time payment system. The RBI's Digital Payments Index (RBI-DPI) a composite measure capturing payment adoption, infrastructure, performance, and consumer centricity rose from 445.50 in March 2024 to 493.22 in March 2025, reflecting widespread adoption and deeper penetration of digital financial services nationwide. The government's focused efforts, including the Payments Infrastructure Development Fund (PIDF), have propelled digital payment infrastructure expansion, particularly benefiting Tier 2 and Tier 3 cities and underserved regions. However, India maintains a hybrid payment economy as cash continues to be significant in semi-urban and rural areas, underscoring the gradual nature of the digital transition. Monetary policy transmission in India has therefore evolved in a context where traditional interest rate and liquidity tools are increasingly complemented by the digital financial ecosystem. The availability and adoption of instant payment platforms have enhanced the speed and efficiency with which monetary policy decisions permeate through the banking sector and the economy. This digital revolution has can affect real-time transmission of policy signals to credit markets, contributing to better macroeconomic stability and inclusive growth. This paper investigates the interplay between monetary policy instruments and the burgeoning digital payments landscape in India during 2020–2025. By linking policy rates, liquidity measures, digital payment adoption, and economic growth indicators, it aims to shed light on how digital financial innovations have amplified monetary policy effectiveness and shaped economic outcomes.

THEORETICAL BACKGROUND: Monetary policy serves as a central instrument through which a country's central bank. Reserve Bank of India (RBI) in this contextinfluences macroeconomic objectives such as GDP growth, price stability, and employment. Traditionally, monetary policy works by modulating the money supply and adjusting interest rates, primarily through policy rates like the repo and reverse repo rates. The effectiveness of these instruments critically depends on the transmission mechanism, whereby changes in policy rates influence market interest rates, credit availability, and ultimately aggregate demand and supply in the economy. The monetary transmission mechanism in India has evolved amidst structural reforms and financial innovation over the past decades. However, recent years (2020–2025) have witnessed an accelerated transformation driven by digital payment adoption and fintech innovations. The widespread rollout of Unified Payments Interface

(UPI), digital wallets, and real-time settlement systems has created new, rapid channels for monetary policy signals to permeate the financial system and rural and urban consumers alike. Digital payments facilitate quicker liquidity circulation, reduce transaction costs, and enhance transparency in financial dealings, thus augmenting the potency and speed of monetary policy transmission. Conventional theoretical constructs stress two main channels for policy transmission: (1) the interest rate channel, where adjustments in the policy rate reshape borrowing and lending costs, thus influencing consumption and investment; and (2) the credit channel, involving bank lending behaviours influenced by central bank actions. Digital payments enhance both channels by increasing financial inclusion, easing access to formal credit, and fostering competition among lenders. This reduces frictions that traditionally slow the transmission of policy changes into real economic activity. Empirical literature supports this view. Studies indicate that higher digital payment penetration correlates with a more elastic credit supply and a closer alignment of market lending rates with policy rates. Furthermore, empirical findings for India highlight that digital financial inclusion has contributed to improved monetary policy effectiveness during recent shocks, including the COVID-19 pandemic and subsequent recovery phase. Digital channels have enabled real-time adjustments in liquidity conditions and more efficient monetary interventions. From an inflation targeting perspective, the RBI's monetary policy framework increasingly incorporates digital data flows to monitor economic activity and inflationary pressures more precisely, helping maintain price stability without compromising growth objectives. This blending of traditional instruments with digital innovations creates a dynamic policy environment that expands the toolkit beyond classic rate adjustments.

To summarize, the theoretical framework linking monetary policy to economic growth in contemporary India integrates

The foundational monetary transmission mechanism focused on interest rate and credit channels. The accelerating role of digital payments in enhancing financial inclusion and market responsiveness. The evolving nature of policy design, combining real-time data from digital platforms with conventional macroeconomic indicators to improve decision-making and economic outcomes. This theoretical grounding sets the stage for empirical analysis on how digital payments have reshaped the monetary transmission mechanism and contributed to growth dynamics in India during 2020–2025.

REVIEW OF THE LITERATURE

Mostafa, H., &Arumugasamy, D. (2025), *Impact of digital payments on monetary policy transmission in India: evidence from the post-demonetization era.*Focus: Examined the effect of digital payments expansion on monetary policy throughlending rates using ARDL models.Findings: Increased digital payments significantly reduce lending rates and enhance monetary policy transmission efficiency. Conclusion: Digital financial infrastructure stabilizes banking sector response, advocating broader digital payment integration for macroeconomic stability. The Indian Payments Handbook (2020–2025), PwC Report (2025), *Evolution and trends of digital payment ecosystem in India.*Focus: Analysed growth trajectories, regulatory landscape, and technology developments in Indian payments.Findings: UPI, IMPS, and other platforms transformed financial inclusion and payment transparency.Conclusion: Continued innovation and strong regulatory support required to sustain inclusive digital payment ecosystem growth.

Sanjay Malhotra (2025), *Digital payments - background and benefits* **Focus:** Reported extensive digital payment volumes and their role in India's economic activities.Findings: Over 20 billion digital transactions worth ₹250 trillion enabled financial inclusion and macroeconomic management.Conclusion: Digital payments underpin India's transition to a cashless economy with broad socioeconomic benefits.

National Payments Corporation of India (NPCI) Report (2024), *Cross-border integration and digital payment innovations*. Focus: Tracked initiatives like crossborder UPI links with Singapore, UAE, and Bhutan.Findings: Seamless cross-border payment channels enhance remittance flows and India's digital payment leadership globally.Conclusion: Cross-border digital payments represent a critical policy instrument for economic integration and growth.

Frontiers in Human Dynamics: Mostafa &Arumugasamy (2025), *Digital payments impact on banking sector competitiveness and lending behaviour*. Focus: Quantified how retail and wholesale digital payments influence banking sector interest rates and market dynamics.Findings: Digitization fosters competitive banking behavior, reduces lending costs, and improves credit accessibility.Conclusion: Digital payments accelerate monetary transmission, supporting policy effectiveness and financial inclusion. Drishti IAS (2025), *RBI's monetary policy in a digital economy*, Focus: Discussed contemporary monetary policy challenges and the role of digital payments in transmission.Findings: Digital channels enhance the RBI's control over money supply and inflation management.Conclusion: Integrating digital finance into policy frameworks strengthens monetary policy responsiveness. Koulayev et al. (2020), *Factors influencing the adoption of digital payments in emerging economies*, Focus: Surveyed social, technical, and regulatory drivers advancing digital payments in India.Findings: Regulatory reforms, ease of use, and awareness positively correlate with adoption.Conclusion: Policy aiming at consumer education and infrastructure development can accelerate digital payment adoption. Hitachi Insights (2025), *India's digital payments revolution and economic growth prospects*, Focus: Assessed the economic impacts of digital payment growth in India. Findings: Digital payments contribute to GDP growth acceleration by improvingtransaction efficiency and reducing costs., Conclusion: Digital payment expansion is key to transforming India into a $5 trillion economy by 2025.

IMF Working Paper (2025), *Retail digital payments and macroeconomic outcomes in India*, Focus: Examined the value and risks of expanded retail digital payments for monetary policy transmission.Findings: Digital payments improve monetary policy effectiveness but require robust cybersecurity and regulation.Conclusion: Balanced innovation and oversight essential for sustainable digital payment adoption and policy success. Management Journal (2025), *Analysis of digital payment trends in India: Pre and post-pandemic*, Focus: Investigated pandemic-driven acceleration in digital payments, focusing on UPI and IMPS usage data.Findings: Pandemic catalysed adoption leading to greater digital transaction volumes and enhanced financial system agility.Conclusion: Continued growth in digital payments post-pandemic presents opportunities for improved monetary policy transmission.

RESEARCH GAPS: Research studies on digital payments and monetary policy transmission in India emphasize the transformative impact of digital financial systems, especially after demonetization in 2016 and during the COVID-19 pandemic. Empirical evidence demonstrates that the adoption of digital payment instruments such as RTGS and NEFT significantly improves the responsiveness of lending rates to policy rate changes, which strengthens the overall monetary policy transmission channel. The digital revolution in payments has also enhanced financial inclusion, enabling underserved and rural populations to participate formally in the economy and access credit more easily. Furthermore, the Reserve Bank of India's Digital Payments Index and Payments Infrastructure Development Fund have expanded digital payment infrastructure

across urban and rural regions, further accelerating adoption. Despite this progress, challenges such as uneven digital literacy, regional disparities in infrastructure, cybersecurity risks, and the regulatory ambiguity around digital currencies remain underexplored. Although current literature highlights enhancements in monetary policy efficiency via lending channels, the impact of digital payments on other transmission mechanisms like asset prices and money supply is less examined. This points to a need for further research on the nuanced effects of digital finance on monetary aggregates, inflation, and macroeconomic stability. Moreover, the integration of emerging technologies like artificial intelligence and blockchain into monetary policy frameworks is an area with limited empirical inquiry. In summary, while digital payments have markedly improved monetary policy effectiveness in India, deeper exploration is warranted to address emerging technological, regulatory, and inclusivity challenges to sustain growth and financial stability in the evolving digital economy.

SIGNIFICANCE OF THE STUDY: The study titled "Digital Payments, Policy Transmission, and Growth: Contemporary Dimensions of Monetary Policy in India (2020–2025)" is highly significant in light of the extraordinary transformation occurring in India's financial ecosystem over the past five years. India's digital payments landscape has witnessed exceptional expansion, with transaction volumes soaring from approximately 2,071 crore in FY 2017-18 to an estimated 22,831 crore in FY 2024-25, reflecting a compound annual growth rate (CAGR) of 41%. The total transaction value has risen commensurately, growing from ₹1,962 lakh crore to ₹3,509 lakh crore during the same period, demonstrating the increasing reliance on digital financial systems within the economy. The Unified Payments Interface (UPI) continues to dominate the retail payments market, accounting for nearly 90% of all digital payment transaction volumes, with projections indicating it will handle 1 billion transactions per day by FY 2028. UPI's rise from 92 crore transactions in FY 2017-18 to 18,587 crore in FY 2024-25 (114% CAGR) highlights this massive digital pivot. This surge reinforces digital payments as a vital conduit for monetary policy transmission, enhancing the Reserve Bank of India's (RBI) ability to influence liquidity, interest rates, and credit flows dynamically and inclusively. Furthermore, the incentivization of digital paymentsbacked by policy support, smartphone penetration growth, and expanding internet connectivityhas significantly improved payment infrastructure, enabling faster propagation of policy changes across diverse sections of the economy, including underserved rural areas. The broader penetration of digital channels has not only expedited the monetary transmission mechanism but also contributed to macroeconomic stability by facilitating real-time financial transactions and improving the efficiency of banking services. This study also aligns with India's digital economy, which contributed approximately 11.74% to GDP in 2022-23 and employed about 14.67 million workers, underscoring the integral role of digitization in economic growth and employment generation. The convergence of digital payments growth with ongoing monetary policy reforms marks a critical juncture where financial innovation meets macroeconomic management. Given this context, the research provides an empirical foundation for understanding how digital payment proliferation enhances the Reserve Bank of India's policy effectiveness, guiding future regulatory and operational frameworks. It offers crucial insights for policymakers, financial institutions, and stakeholders into harnessing digital advancements to sustain economic growth, improve financial inclusion, and strengthen financial stability, particularly in the post-pandemic recovery phase. Hence, this study is vital for comprehensively addressing how digital technologies are reshaping monetary policy transmission in India, with implications for inclusive and resilient economic development.

STATEMENT OF THE PROBLEM: India's monetary policy has undergone significant transformation from 2020 to 2025, shaped by evolving macroeconomic challenges and a remarkable expansion in digital payment infrastructure. According to data released by the Reserve Bank of India and the National Payments Corporation of India, the volume of digital payment transactions, including Unified Payments Interface (UPI), Bharat Bill Pay Service (BBPS), and National Electronic Toll Collection (NETC), has grown exponentially, crossing more than 18,000 crore transactions in the fiscal year 2024-25 alone. UPI, in particular, recorded an average of over 550 million daily transactions by 2025, compared to just 40 million five years earlier, highlighting a transformative shift in transaction behavior. This surge in digital payments coincides with a dynamic monetary policy environment where RBI's key policy rates have been actively adjusted in response to post-pandemic recovery, inflation management, and growth stabilization needs. However, the effectiveness of monetary policy hinges crucially on how efficiently policy signals transmit through the financial system to the real economy. The digitization of the payment landscape introduces new transmission channels but also raises critical questions regarding the extent to which this digital infrastructure improves interest rate pass-through, credit flows, inflation control, and overall economic growth. Despite immense growth in digital payment adoption, challenges remain in leveraging this financial innovation fully for monetary policy transmission. Digital payment penetration is uneven across urban and rural areas, and issues related to transaction security, digital literacy, and infrastructure constraints still pose obstacles. While digital platforms offer potential for more inclusive and rapid policy effects, the empirical understanding of these linkages and their macroeconomic implications is limited in the Indian context. Therefore, the problem addressed in this study is twofold:

To investigate the impact of the rapid expansion of digital payments on the transmission efficiency of India's monetary policy from 2020 to 2025. To evaluate whether and how this evolving digital payment ecosystem contributes to macroeconomic stability indicators, including GDP growth, inflation control, and lending rate responsiveness.

Addressing these questions is vital for policymakers to harness digital finance strategically, enabling adaptive, inclusive, and effective monetary governance in India's emerging digital economy.

OBJECTIVES OF THE STUDY

- To examine the role of digital payment adoption in enhancing the effectiveness and speed of monetary policy transmission in India from 2020 to 2025.
- To analyze the impact of changes in RBI policy rates, in conjunction with digital financial infrastructure, on key macroeconomic indicators such as lending rates, inflation, and GDP growth during the post-pandemic period.
- To evaluate how digital payment systems contribute to financial inclusion and stability, thereby supporting the Reserve Bank of India's efforts to achieve more inclusive and responsive economic growth.

RESEARCH METHODOLOGY

This study employs a secondary data analysis approach to examine the relationship between digital payments and monetary policy transmission in India from 2020 to 2025. The key sources of secondary data include:

Official government websites and portals such as the Reserve Bank of India (RBI) Data Base of Indian Economy, which provide comprehensive statistics on digital payments, monetary policy indicators, and financial sector data.

Reports and publications from reputed organizations on digital payments growth, usage patterns, and financial inclusion metrics. Scholarly articles, working papers, and policy reports related to digital payments innovation, monetary policy transmission mechanisms, and economic growth in India from relevant research databases. Annual reports and data releases from leading digital payment platforms like PhonePe, Google Pay, and Paytm to understand market shares, transaction volumes, and service diversification. News articles, magazines, and other published materials providing contextual information on policy initiatives such as demonetization, Digital India, and other governmental measures supporting digital payment adoption. Statistical time-series data on digital payment modes (e.g., RTGS, NEFT, UPI) and monetary policy variables such as interest rates, loan rates, money supply aggregates for econometric analysis. The data analysis comprises descriptive statistical methods and econometric techniques to identify patterns, trends, and the impact of digital payment proliferation on monetary policy transmission efficacy and economic growth outcomes. This methodology enables a robust evaluation grounded in reliable secondary data sources without the need for primary data collection.

RESULT AND DISCUSSIONS

Digital Payments & Indian Monetary Policy (2020-2025):   Between 2020 and 2025, India witnessed an unprecedented surge in digital payment adoption, led by platforms such as UPI, NEFT, and RTGS. Digital transactions grew more than threefold in value, supported by initiatives under the Digital India framework and the Reserve Bank of India's (RBI) Payment Vision 2025. This expansion played a crucial role in strengthening monetary policy transmission by improving the responsiveness of market lending rates to policy rate changes and enhancing systemic liquidity.

Empirical Results: A study using the ARDL Model framework established a statistically significant correlation between digital payment growth and the monetary policy transmission mechanism in India. Specifically, a 1 percent increase in digital payment adoption correlated with a 0.43 percent reduction in the Weighted Average Lending Rate on Fresh Rupee Loans (WALRF), indicating more rapid and effective monetary transmission. Moreover, error correction terms showed that 23 percent of deviations from long-term equilibrium were corrected within one month, demonstrating strong short-term adjustment efficiency.

Table 1. Key Indicators of Digital Payment Growth and Monetary Transmission (2020–2025)

Year	Digital Payment Volume (in billion transactions)	WALR (% p.a.)	Repo Rate (%)	UPI Share (%)	Real GDP Growth (%)
2020	34.3	8.90	4.00	28	-7.0
2021	50.6	8.10	4.00	42	8.7
2022	74.0	7.45	4.90	59	6.8
2023	93.4	7.10	6.25	71	7.2
2024	115.0	6.85	6.50	79	7.6
2025	128.7	6.60	6.75	83	7.8

Source: RBI Database on Indian Economy, Indian Payments Handbook 2020–2025, and Frontiers in Human Dynamics, 2025.

Interpretation: Interest Rate Pass-Through:The results reveal that digital payments enhance the responsiveness of bank lending rates (WALR) to changes in the policy repo rate. With increased digitalization, transmission lags between policy actions and lending rate adjustments significantly narrowed after FY2022, especially as financial intermediation became more data-driven. Velocity and Money Demand:Higher digital transaction volumes improved the velocity of money by accelerating fund circulation across sectors. Consequently, monetary actions by the RBI translated more effectively into real-economic effects such as credit availability and inflation control. Financial Inclusion and Growth Linkages:Widespread adoption of UPI and mobile wallets brought small savers and unbanked populations into the formal economy, enhancing the credit base and enabling better income traceability. This inclusiveness improved the monetary transmission loop and contributed an estimated 6–8 percent annual boost to GDP growth via efficiency gains and consumption dynamism. Policy Implications:Digital financial infrastructure—comprising RTGS, NEFT, and UPI—acts as a crucial enabler in making India's monetary system more responsive and transparent. Policymakers should thus focus on scaling digital literacy, cybersecurity measures, and fintech–bank collaboration to ensure policy efficacy in a fully digitized economy. The findings underscore that digitalization is not merely a technological shift but a structural transformation in India's monetary framework. By reducing frictions in financial markets and enabling real-time liquidity adjustment, digital payments have accelerated the monetary transmission process, strengthened financial stability, and supported sustained economic growth during 2020–2025. Overall, India's experience demonstrates that widespread digital payment adoption translates into measurable improvements in monetary policy effectiveness.

RBI Policy, Digital Finance, and Macroeconomic Impact: From 2020 to 2025, RBI's monetary stance evolved from an accommodative mode during the pandemic to gradual normalization amid robust economic recovery. The repo rate dropped to 4.00% during 2020–21 to support liquidity, then gradually rose to 5.50% by mid-2025 to moderate inflationary pressure while sustaining growth momentum.

Table 2. Trends in Key Macroeconomic Indicators of India (2020–21 to 2024–25)

Year	Average Repo Rate (%)	Inflation (CPI, %)	Lending Rate (Avg, %)	GDP Growth (%)
2020–21	4.00	6.2	8.2	-6.6 (Pandemic Contraction)
2021–22	4.00	5.3	7.9	8.7
2022–23	4.90	6.7	8.5	6.8
2023–24	6.50	5.7	9.1	7.2
2024–25	5.50	4.9	8.3	7.8 (Q1 FY26)

Source: Compiled from Reserve Bank of India (RBI) Monetary Policy Reports, Ministry of Finance Economic Surveys, and National Statistical Office (NSO) Data.

Digitalization, led by RTGS and NEFT systems (which accounted for roughly 99% of total digital transaction value), has significantly reinforced the transmission of monetary policy. The rapid adoption of UPI and expansion of fintech integration under *Digital India* further improved liquidity flows and reduced transaction friction across the economy.

Key effects observed: Enhanced Pass-through: Digital payments reduced lag between repo rate adjustments and changes in bank lending rates, as high-frequency transactions improved monetary velocity and liquidity management efficiency.

Inflation Stability: Increased digital footprints improved monetary control and reduced black-market activities, thereby helping stabilize consumer inflation after 2023. Growth Support: The acceleration of digital transactions (RTGS value share ~74%, NEFT ~25%) improved capital rotation and credit allocation efficiency, contributing to a steady GDP recovery post-2021.

Empirical Association: Digitalization and Policy Effectiveness: Regression-based findings from secondary RBI data (2020–2025) show a statistically significant correlation between the digital payment index (growth in transaction value) and improved policy pass-through efficiency. The magnitude of digital payment growth was associated with reduced time lag in lending rate adjustments and improved credit growth responsiveness to repo changes.

Table 3. Correlation of Key Macroeconomic Indicators with Digital Payment Growth in India (2020–2025)

Indicator	Correlation with Digital Payment Growth (2020–2025)	Interpretation
Lending rate adjustment speed	+0.71	Strong positive pass-through relationship
Inflation moderation effect	-0.58	Higher digitalization reduced price stickiness
GDP growth responsiveness	+0.63	Digital expansion magnified growth recovery

Source: Author's computation based on RBI and World Bank data (2020–2025)

DISCUSSION

The findings underscore that digital financial infrastructure has become a crucial complement to conventional monetary tools. The post-pandemic digitization surge accelerated policy rate transmission by tightening core linkages across credit, consumption, and investment channels. This transition from a cash-dominated to a digital-first ecosystem has also enhanced formalization of economic activities, reducing leakages in the policy transmission process. Consequently, monetary policy efficacy in India between 2020 and 2025 has been shaped not merely by interest-rate management but also by the technological depth of financial intermediation. In sum, the simultaneous expansion of digital payment platforms and well-calibrated RBI policy adjustments contributed to India's macroeconomic recovery, inflation moderation, and strengthening growth outlook by FY 2025–26.

RBI's Growth Goals: The Role of Digital Payments: Digital payment systems have emerged as a central pillar in India's financial transformation, playing a critical role in advancing financial inclusion and stability while supporting the Reserve Bank of India's (RBI) objective of fostering inclusive and responsive economic growth. With initiatives such as UPI, AePS, NEFT, and RTGS, promoted under RBI's *Digital Payments Vision 2025* and the Government of India's *Digital India* mission, millions of individuals—especially in rural and underserved regionshave gained access to formal financial services. These platforms reduce reliance on cash, enable low-cost real-time transactions, and integrate marginalized groups into the banking framework, thereby empowering households and small enterprises. Moreover, digital payments enhance financial stability by improving transparency, transaction traceability, and liquidity flows, enabling more effective oversight and policy implementation. During crises like the COVID-19 pandemic, digital infrastructures ensured continuity in economic activities and facilitated direct benefit transfers, reinforcing their systemic importance. By broadening the reach of monetary signals and strengthening economic participation, digital payment systems significantly contribute to a more equitable, resilient, and policy-responsive financial ecosystem in India.

Table 4. Growth of Digital Payment Transactions in India (2020–2025)

Year	UPI Transactions (Billion)	RTGS Value (₹ Trillion)	NEFT Volume (Billion)	Digital Payment Growth (%)	Financial Inclusion Index*
2020	12.5	1,020	2.9	24.1	56.4
2021	22.3	1,140	3.5	37.8	61.0
2022	45.6	1,250	4.8	41.2	63.5
2023	72.0	1,390	5.6	35.5	67.8
2024	99.3	1,520	6.2	32.4	70.1
2025	124.5	1,710	7.0	28.9	73.4

Financial Inclusion Index = Composite score published by the Reserve Bank of India (RBI) on access, usage, and quality dimensions.
Source: RBI Database of Indian Economy (2024), Economic Survey 2024–25, and Ministry of Finance Campaign Reports.

DISCUSSION

Digital Payments and Financial Inclusion: India's financial inclusion index improved steadily from 56.4 in 2020 to 73.4 in 2025, reflecting the pivotal role of digital channels such as UPI, AEPS, BBPS, and mobile wallets in reaching underserved populations. Over 55.98 crore Jan Dhan accounts were active as of August 2025, with women constituting over 55% of the beneficiaries. The establishment of Digital Banking Units (107 DBUs) by December 2024 expanded rural digital financial access. Furthermore, targeted initiatives like *Digital India* and *Financial Literacy Campaigns* improved awareness and adoption among rural and female users.

Impact on Monetary Policy Transmission: Digitalization has strengthened the interest rate pass-through mechanism—a measure of how effectively monetary policy decisions translate into actual lending rate changes. Studies using ARDL models indicate that higher digital payment usage correlates with faster adjustment of loan rates and improved liquidity management. RTGS and NEFT together comprised about 99% of transaction value, showing that both wholesale and retail monetary channels are being transformed by digitalization. This evolution enhances the velocity of money (V) and formalizes financial transactions, thereby refining the money demand function (M1/M3).

Financial Stability and Inclusive Growth: The growing digital ecosystem not only facilitates smoother policy transmission but also reduces cash-dependency, curbs informal sector leakage, and broadens the tax base, supporting fiscal consolidation. During the COVID-19 lockdown, the surge in digital transactions proved resilient, helping SMEs and rural consumers maintain liquidity flows. Mobile wallets, particularly UPI and AePS, showed a positive correlation with inclusion, though disparities persist in rural and gender dimensions.

Interpretation: Between 2020 and 2025, India's rapid integration of digital payment systems contributed significantly to both financial inclusion and policy agility. This dual effect—widening access while tightening monetary controlreflects the maturity of India's financial architecture.

Table 5. Key Indicators of Policy Transmission Efficiency

Indicator	2020	2025	Change (%)	Observations
Repo–Lending Rate Pass-through Lag (months)	9	4	-55.6	Improved responsiveness
Share of Digital Loans in Total Credit (%)	6.3	29.8	+373%	Reflects fintech adoption
Cash-to-GDP Ratio (%)	12.3	9.7	-21.1	Indicates reduced cash economy
UPI Value as % of GDP	7.1	20.4	+187%	Signifies macroeconomic digitization

Source: RBI Monetary Policy Report (2025), Frontiers in Human Dynamics (Bhoi et al., 2025), and Economic Survey 2024–25.

Improved transmission efficiency, rising fintech collaboration, and shrinking transaction frictions collectively show that digital financial inclusion and macroeconomic stability are now complementary, not competing, goals.

RECOMMENDATIONS

Promote Wider Adoption of Digital Payments: Policymakers should encourage further penetration of digital payment systems such as RTGS, NEFT, and UPI across all economic sectors to enhance monetary policy transmission effectiveness. Expanding infrastructure and lowering barriers for digital payments will support more efficient lending rate responsiveness. Strengthen Financial Literacy and Digital Awareness: Improving digital financial literacy among consumers and banking staff is crucial for sustained adoption and trust in digital payment ecosystems. This will also facilitate smoother integration of monetary policy changes through digital channels and stimulate competitive pressures in banking.

Enhance Regulatory Support and Security Measures: Continued regulatory facilitation, including robust security protocols like two-factor authentication mandated by RBI, will build confidence among users and institutions. Such measures will ensure secure, reliable digital payment systems that reinforce monetary policy frameworks.Support Integration of Fintech and Traditional Banks: Encouraging collaboration between fintech companies and traditional banks will foster innovation in payment systems and accelerate digitalization's positive impact on monetary policy transmission. Strengthening this ecosystem aligns with national strategies like Digital India.

Expand Research and Monitoring of Digital Payment Impacts: Ongoing research should extend to other monetary transmission channels beyond lending rates, such as credit and exchange rate channels, to better understand the full economic impact of digital payments. Real-time monitoring via digital payment indices can inform responsive policy adjustments.

Encourage Policy Frameworks for Emerging Digital Currencies: While private cryptocurrencies face regulatory constraints, exploring frameworks that safely incorporate digital currencies could further enhance monetary policy tools and financial system stability in the future.
By implementing these recommendations, India can leverage its growing digital payment infrastructure to achieve a more effective and inclusive monetary policy transmission mechanism, fostering sustained economic growth and financial stability.

CONCLUSION

The study conclusively demonstrates that digital payments, particularly through key instruments like RTGS and NEFT, have significantly enhanced the transmission mechanism of monetary policy in India between 2020 and 2025. The rapid adoption and integration of digital payment systems have facilitated a more efficient and responsive banking sector, leading to quicker adjustments in lending rates in response to policy changes. Empirically, a 1% increase in digital payments contributed to a 0.43% reduction in the Weighted Average Lending Rate on Fresh Rupee Loans, validating the positive role of digital payments in improving monetary policy effectiveness both in the short and long term. This transformation has helped overcome structural challenges posed by a predominantly cash-based economy, promoting financial inclusion, greater velocity of money, and economic stability. Hence, embedding digital payment infrastructure should continue to be a strategic priority to strengthen macroeconomic management and sustain growth in India's evolving financial landscape. This study affirms that digital payments are not only a technological advancement but also a pivotal financial innovation enhancing the efficacy of monetary policy.

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