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India's Financial Conditions Index indicates more congenial financial conditions

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An article in the June RBI Bulletin attempts to construct a financial conditions index (FCI) for India at daily frequency, using select indicators from the money, G-sec, corporate bond, equity, and forex markets.

The primary objective is to construct a composite indicator that tracks overall conditions in financial markets at a high frequency.

The FCI assesses the degree of relatively tight or easy financial market conditions with reference to its historical average since 2012.

The estimated FCI traces movements in financial conditions across both periods of relative calm as well as crisis episodes.

The index suggests that in the aftermath of the pandemic, exceptionally easy financial condition was driven by the combined impact of amiable conditions across all market segments. Financial conditions continued to remain relatively easy since mid-2023 before firming up from November 2024.

In the current financial year, however, it has remained congenial riding on a buoyant equity market and a money market suffused with liquidity.

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