

# RBI's Financial Conditions Index - Tracking Market Health in Real Time

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## Financial Conditions Index Latest News

- In a bid to enhance real-time monitoring of the country's financial health, a recent study by the Reserve Bank of India (RBI) has proposed the construction of a Financial Conditions Index (FCI) for India with a daily frequency.

## Introduction

- To enhance real-time assessment of India's financial ecosystem, the Reserve Bank of India (RBI) has proposed a Financial Conditions Index (FCI) with a daily frequency.
- The FCI is a composite indicator that aggregates data across major financial segments to evaluate how tight or relaxed financial conditions are, relative to their historical average since 2012.
- This move aligns with global central banking practices, where FCIs help gauge monetary transmission, inform policy decisions, and signal systemic stress.

## Purpose and Structure of the Financial Conditions Index

- The proposed FCI aims to serve as a dynamic and high-frequency barometer of India's financial stability by integrating data from:
  - **Money Markets**
  - **Government Securities (G-Sec)**
  - **Corporate Bonds**
  - **Equity Markets**
  - **Foreign Exchange Markets**
- **According to the RBI study published in its June 2025 Bulletin, the FCI is designed to:**
  - Measure the ease or tightness of financial conditions daily.
  - Capture trends across calm and volatile phases.
  - Serve as a macro-financial surveillance tool for policymakers.
- The FCI is built using 20 market-based indicators, and values are standardised to reflect changes in financial tightness or looseness in standard deviation units. A positive value indicates tighter conditions, while a negative value suggests easier financial conditions.

## Evolution of Financial Conditions in Recent Years

- **Post-Pandemic Recovery and Easy Financial Conditions**
  - The COVID-19 pandemic led to a dramatic tightening of financial conditions due to a sharp sell-off in equity and corporate bond markets.
  - However, this was followed by an exceptionally loose financial environment in 2021-2022, driven by the RBI's proactive interventions, including:
    - Large-scale liquidity infusion
    - Policy rate cuts
    - Regulatory forbearance measures
  - During this period, the FCI reached a low of **-2.197** in mid-June 2021, indicating extremely easy financial conditions.
- **Periods of Tightening**
  - Significant peaks in the FCI were observed during historical stress episodes, such as:
    - **July 2013 Taper Tantrum:** A peak of **+2.826**, primarily driven by tightening in bond and forex markets due to fears of US Federal Reserve tapering.
    - **September 2018 IL&FS Crisis:** Equity and bond markets contributed to financial tightening, reflecting stress in the NBFC sector.
    - **Early 2020 COVID-19 Onset:** Market panic due to the global economic shutdown led to a sharp tightening again.

## Recent Trends and Current Financial Landscape

- Since mid-2023, India's financial conditions have largely remained **easy**, aided by:
  - Robust equity market performance

- Ample liquidity in the money market
- Supportive government bond yields
- From **November 2024**, conditions started to tighten slightly, attributed to:
  - Rising global financial uncertainty following the US presidential election
  - Changing risk perception in bond and equity markets
  - Policy normalisation by global central banks
- However, by **March 2025**, the FCI moderated and returned to near-neutral levels, signalling stabilisation.

## Significance and Policy Implications

- The introduction of a daily FCI is expected to strengthen India's macro-financial analysis toolkit. Key implications include:
  - **Real-time Monitoring:** Enables early identification of stress build-up or excess exuberance.
  - **Policy Calibration:** Supports timely and data-backed monetary and fiscal policy decisions.
  - **Market Guidance:** Offers insights to financial market participants regarding liquidity and systemic risk.
- Globally, FCIs are used by institutions like the US Federal Reserve and European Central Bank. For India, a customised FCI tailored to its unique market dynamics will aid in improving monetary transmission and crisis management.

## Future Outlook

- As India's financial architecture becomes increasingly complex, the RBI's daily FCI will play a pivotal role in ensuring financial stability.
- By offering a unified, real-time view of multiple market segments, it empowers both policymakers and investors with actionable intelligence.
- Continued refinement of the index, such as inclusion of newer market indicators, algorithmic adjustments, and integration with other macroeconomic dashboards, can further enhance its utility.

**Source :** IE | BS

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