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RBI Working Paper No. 09/2020: Measuring Financial Stress in India

Today, the Reserve Bank of India placed on its website a Working Paper titled "[Measuring Financial Stress in India](#)" under the Reserve Bank of India Working Paper Series¹. The paper is authored by Manjusha Senapati and Rajesh Kavediya.

This paper focuses on the construction of financial stress indices for the Indian financial system using market-based indicators and three different aggregation methods. The paper finds that these indices provide useful information, which is not captured by the market indicators, on the stress build-up in the financial system. The financial stress indices developed in this paper showed a negative correlation with the Index of Industrial Production (IIP) and can be employed to predict real economic activity. The proposed financial stress indices are also found to be useful in dating past stress episodes in the Indian economy.

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Ajit Prasad
Director

¹ The Reserve Bank of India introduced the RBI Working Papers series in March 2011. These papers present research in progress of the staff members of the Reserve Bank and are disseminated to elicit comments and further debate. The views expressed in these papers are those of authors and not of the Reserve Bank of India. Comments and observations may kindly be forwarded to authors. Citation and use of such papers should take into account its provisional character.