

**SAYAN BANERJEE**

Institute of Management Technology-Nagpur, India

## **FINANCIAL CONDITION INDEX (FCI) WITH MONETARY CONDITION INDEX (MCI) : COMPARING USEFULNESS IN THE CONTEXT OF INDIAN ECONOMY**

### **Abstract:**

This article attempts to compare the usefulness of Financial Condition Index (FCI) vis-à-vis Monetary Condition Index (MCI) in Indian economy in terms of their ability to highlight volatility of Indian economy through a co-relation test with inflation rate. FCI is constructed by incorporating a financial variable; broad money supply, along with two pure monetary variables, short term interest and exchange rate. The MCI is constructed by using only the two pure monetary variables. It is found out that for the last 2 decades time period, FCI shows a better co-relationship with inflation rate in comparison to MCI, and therefore, it may be consider more useful as a policy instrument for monitoring the macroeconomic volatility.

### **Keywords:**

Financial Condition Index, Monetary Condition Index, Inflation, Indian Economy.