


**भारतीय रिज़र्व बैंक  
RESERVE BANK OF INDIA**
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**RBI Bulletin – June 2025**

Today, the Reserve Bank released the [June 2025](#) issue of its monthly Bulletin. The Bulletin includes bi-monthly monetary policy statement (June 06, 2025), two speeches, five articles and current statistics.

The five articles are: [I. State of the Economy](#); [II. Financial Conditions Index for India: A High-Frequency Approach](#); [III. Balance Sheet Channel of Monetary Policy Transmission: Insights from Indian Manufacturing Firms](#); [IV. Drivers of CD Issuances: An Empirical Assessment](#); and [V. Predicting CPI inflation in India: Combining Forecasts from a 'Suite' of Statistical and Machine Learning Models](#).

**I. State of the Economy**

The global economy is in a state of flux, reeling from the twin shocks of trade policy uncertainties and a spike in geo-political tensions. In this state of elevated global uncertainty, various high-frequency indicators for May 2025 point towards resilient economic activity in India across the industrial and services sectors. Agriculture showed a broad-based increase in production across most major crops during 2024-25. The domestic prices situation remains benign with headline inflation staying below the target for the fourth consecutive month in May. Financial conditions remained conducive to facilitate an efficient transmission of rate cuts to the credit market.

**II. Financial Conditions Index for India: A High-Frequency Approach**

*By Pulastya Bandyopadhyay, Avnish Kumar, Pankaj Kumar and Indranil Bhattacharyya*

This article 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.

**Highlights:**

- 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.

### **III. Balance Sheet Channel of Monetary Policy Transmission: Insights from Indian Manufacturing Firms**

*By Bhavesh Salunkhe, Sapna Goel, Amit Kumar, Preetika, Kunal Priyadarshi and Satyananda Sahoo*

Monetary policy plays a key role in influencing investment in fixed assets of manufacturing firms through the balance sheet channel – a mechanism where interest rate changes affect a firm's financial health (cashflow and net worth) – which, in turn, impacts its borrowing capacity and investment decisions. Against this backdrop, the study examines the existence of balance sheet channel of monetary policy transmission in India.

#### **Highlights:**

- The balance sheet channel of monetary policy transmission is active among Indian manufacturing firms.
- During monetary policy tightening, small firms (which, in general, face relatively greater financial constraints) rely more on internal funds for investment in fixed assets and *vice versa*.
- While both highly leveraged and less leveraged firms are affected by monetary policy through this channel, the difference in their sensitivity of investment to cashflow is inconclusive.

### **IV. Drivers of CD Issuances: An Empirical Assessment**

*By Anshul, Priyanka Priyadarshini and Dipak R. Chaudhari*

The article examines the market microstructure of certificates of deposit (CDs) in India, including issuers and investors profile and assesses the potential drivers of CD issuances. Credit growth and tight liquidity conditions are found to enhance CD issuances, while market volatility and current and expected increase in interest rates dampen CD issuances.

#### **Highlights:**

- Public sector banks (PSBs) rely on CD issuances more than private sector banks. On the investors' side, mutual funds remain the dominant player with an average share of 85 per cent.
- Among different categories of banks, PSBs enjoy lower cost of CD issuance on an average than others. However, the spread in the rate among the banks has narrowed since July 2022. For small finance banks (SFBs), the rate is usually higher than others, reflecting higher risk premia.
- Liquidity condition, interest rate expectation, and volatility (VIX) determine CD issuance in the long run. Further, increase in credit advances with lower deposit mobilisation prompts higher issuances.

- In the short run also, liquidity is found to be the major driver of CD issuances. The findings reconfirm that CD issuances are mainly driven by liquidity management considerations and short-term funding requirements.

## **V. Predicting CPI inflation in India: Combining Forecasts from a ‘Suite’ of Statistical and Machine Learning Models**

*By Renjith Mohan, Saquib Hasan, Sayoni Roy, Suwendu Sarkar, and Joice John*

This study develops a methodology to forecast headline and core CPI (CPI excluding food and fuel) inflation in India by using a combination of statistical, Machine Learning (ML), and Deep Learning (DL) models. By applying a performance-weighted forecast combination approach to combine forecasts from all classes of models, the method leverages the strengths of each model.

### **Highlights:**

- The approach of combining forecasts of statistical, ML and DL methods is found to have similar or even better accuracy over standalone models in the context of forecasting inflation in India. It minimises model misspecification biases, making it a reliable benchmark.
- This approach can also generate density forecasts for inflation, which can be used to determine measures of uncertainties and asymmetries, emanating from model misspecifications. Additionally, forecast combination approach provides confidence bands, enabling policymakers to assess risks and make more informed decisions.

The views expressed in the Bulletin articles are of the authors and do not represent the views of the Reserve Bank of India.

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**(Puneet Pancholy)**  
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