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Gold Prices and Financial Stability in India: RBI Working Paper Series

The Reserve Bank of India today placed on its website a Working Paper for the month of February 2012 titled "[Gold Prices and Financial Stability in India](#)". The Working Paper has been written by Dr. Rabi N. Mishra and Shri G. Jagan Mohan.

There has been an almost unabated rise in the international gold prices in recent months. As gold is an integral part of savings of a large number of savers, this has raised apprehensions whether any correction in gold prices will have destabilising effects on the financial markets. In this backdrop, the present study initially examines the inter-linkages between domestic and international gold prices and then the nature of changes in the factors affecting international gold prices during the last two decades.

While empirically validating the existence of complete inter-linkages between domestic and international gold prices, it concludes that there has been a structural shift in the factors affecting international gold prices in the period prior to 2003, short-run volatility in international gold prices used to be due to traditional factors such international commodity prices, US exchange rate and equity prices. From 2003 onwards, the same is largely due to the volatility in the US exchange rate and mildly due to volatility in equity prices.

Based on these empirical evidences, the authors have studied the implications of correction in gold prices on financial stability index. They conclude that implications of any correction in gold prices on the Indian financial markets are likely to be muted.

The Reserve Bank of India introduced in April 2011, a 'RBI Working Paper Series' (RBI - WP) to provide a platform to the Reserve Bank Staff for presenting their research studies as well as to receive feedback from informed researchers.

The views expressed in all the research publications of the Reserve Bank, including the RBI Working Papers Series, do not necessarily reflect the views of the Reserve Bank and as such should not be reported as representing the views of the Reserve Bank of India.

Feedback, if any, on the papers could be addressed to the respective authors of the research studies.

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