Abstract

There is a traditional view that central banks should hold enough gold in their reserves to be considered financially secure and keep low inflation. However, after the fall of the Bretton-Woods system, many central banks have been decreasing its gold reserves by converting gold into other assets and still they do not experience high inflation. This thesis aims to answer the question if gold reserves of central banks indeed positively affect price stability. We use the panel data for 110 countries for the period from 2000 to 2016. We find that there is a significant negative effect of central banks' gold reserves on inflation but only if we control the proxy variables for the financial strength of central banks. Furthermore, the significance holds only for the inflation-targeting countries, there are no significant effects for the whole data sample.

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