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RBI Working Paper No. 13/2022: Is Implied Volatility Index (VIX) a Forward-Looking Indicator of Stock Market Movements in India?

Today the Reserve Bank of India placed on its website a Working Paper titled "[Is Implied Volatility Index \(VIX\) A Forward-Looking Indicator of Stock Market Movements in India?](#)" under the Reserve Bank of India Working Paper Series*. The paper is co-authored by Amarendra Acharya, Subrat Kumar Seet and Prakash A. Salvi.

The paper examines the relationship between the implied volatility index (VIX) and stock market movements in India over the last decade. It finds that negative returns in the stock index generate larger changes in implied volatility as compared to positive returns. The size of the return also influences the relative change in the implied volatility index. Further, it is seen that higher levels of volatility influence buying decisions of the investors at a duration of 20- and 60- days. Such behaviour indicates that the Indian stock market is forward-looking to an extent and resembles the pattern observed in the US.

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(Yogesh Dayal)
Chief General Manager

*The Reserve Bank of India (RBI) introduced the RBI Working Papers series in March 2011. These papers present research in progress of the staff members of the RBI and at times also those of external co-authors, when the research is jointly undertaken. They are disseminated to elicit comments and further debate. The views expressed in these papers are those of the authors and not necessarily those of the institution(s) to which they belong. Comments and observations may please be forwarded to the authors. Citation and use of such papers should take into account its provisional character.