

Macro Roundup Article

Headline: [Does Money Growth Help Explain the Recent Inflation Surge?](#)

Article Link: <https://www.bis.org/publ/bisbull67.pdf>

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Tweet: [.@BIS_org finds that the relationship between money growth and inflation during periods of high inflation is close to "one to one" during periods of high inflation, but they find little relationship during non-inflationary periods.](#)

Summary: The strength of the link between money growth and inflation depends on the inflation regime: it is one-to-one when inflation is high and virtually non-existent when it is low. Panel A illustrates the long-run relationship between inflation and “excess money growth” – the difference between money growth and real GDP growth. The graph displays the relationship between these two variables based on non-overlapping 10-year averages. When the observations from all countries are pooled, the standard relationship emerges clearly: there is a precisely estimated one-to-one link between excess money growth and inflation. But, as shown in panel B, if we split the observations into high- and low-inflation ones using different 10-year average inflation rate thresholds, we see that this relationship exists only when inflation is relatively high. As expected, the difference narrows noticeably as the inflation threshold increases.

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Primary Topic: Inflation

Topics: Academic paper, Factoid, GDP, Inflation

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