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# IMF Working Paper

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Does Money Growth Granger-Cause  
Inflation in the Euro Area?  
Evidence from Out-of-Sample Forecasts  
Using Bayesian VARs

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**IMF Working Paper**

European Department

**Does Money Growth Granger-Cause Inflation in the Euro Area?  
Evidence from Out-of-Sample Forecasts Using Bayesian VARs<sup>1</sup>**

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**Abstract**

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We use a mean-adjusted Bayesian VAR model as an out-of-sample forecasting tool to test whether money growth Granger-causes inflation in the euro area. Based on data from 1970 to 2006 and forecasting horizons of up to 12 quarters, there is surprisingly strong evidence that including money improves forecasting accuracy. The results are very robust with regard to alternative treatments of priors and sample periods. That said, there is also reason not to overemphasize the role of money. The predictive power of money growth for inflation is substantially lower in more recent sample periods compared to the 1970s and 1980s. This cautions against using money-based inflation models anchored in very long samples for policy advice.

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