Banco de la República | Colombia
Somos el banco central de Colombia

Budget Deficit, Money Growth and Inflation: Evidence from the Colombian Case

Working Paper No. 537 Keep in mind
The series Working Papers on Economics is published by the Office for Economic Studies at the *Banco de la República* (Central Bank of *Colombia*). It contributes to the dissemination and promotion of the work by researchers from the institution. This series is indexed at Research Papers in Economics (RePEc).

On multiple occasions, these works have been the result of collaborative work with individuals from other national or international institutions. The works published are provisional, and their authors are fully responsible for the opinions expressed in them, as well as for possible mistakes. The opinions expressed herein are those of the authors and do not necessarily reflect the views of Banco de la República or its Board of Directors.

AUTHOR OR EDITOR Luis Ignacio Lozano
Evidence of the causal long-term relationship between budget deficit, money growth and inflation in Colombia is analyzed in this paper, considering the standard (M1), the narrowest (M0-Base) and the broadest (M3) definitions of money supply. Using a vector error correction (VEC) model with quarterly data over the last 25 years, the study found a close relationship between inflation and money growth on the one hand, and between money growth and fiscal deficit, on the other. The size of the long-term parameters looks acceptable, particularly when compared to what is seen in other countries, using analogous or different techniques. The conclusion, supported by several statistical tests, is that the Sargent and Wallace hypothesis would be the most appropriate approach to understanding the dynamics of these variables.

The views expressed in this paper are those of the author and do not necessarily reflect the opinions of the Central Bank of Colombia. The author wishes to thank to Karen Rodriguez for her valuable technical assistance.

Fuente: https://www.banrep.gov.co/en/borrador-537