An Analysis of The Nature of Money Supply in India & Its Expected Causes

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ABSTRACT

Money supply refers to the aggregate of money circulating in an economy. It is an important macroeconomic variable responsible for significant changes in an economy. The study is significant for different stakeholders such as policy-makers, investigators, researchers, and educational institutions etc. The study would also help in determining the lump-sum earnings in the hands of people.The study focuses on the fluctuations in money supply after implementation of PM Jan-Dhan Yojana i.e. August, 2014.The study also elaborates the conceptual understandings and theoretical relations of money supply with significant factors regarding money supply fluctuations in India.For the analytical study, the quantitative information regarding money supply i.e. reserve money & broad money have been gathered from different research articles, weekly, monthly & annual publications, and different authentic sources etc. After analyzing the gathered data with the help of trend analysis & descriptive statistics, that different decisions like PM Jan-Dhan Yojana, Demonetization, Kisan Samman Nidhi Yojana, Withdrawal of Rs.1.76 Lakh from RBI and its spending on unplanned expenditures. Decisions made due to covid-19 pandemic.

Keywords: Concept ofReserve money (M_0), Broad money (M_3): Components & sources, Expected causes of fluctuating money supply.

I-   INTRODUCTION

The monetary system in India is managed and controlled by the Reserve Bank of India. The current monetary system is based on irrevocable paper money and coins. Externally the Indian currency rupee is again converted to various world currencies. Money supply is the aggregate stock of money available for public at a particular point of time. Money supply in an economy works as a blood for its growth. It comprises of M0, M1, M2, M3, and M4.

1.1 Reserve Money (M0): It includes, Money in circulation + Bankers' deposits + Other deposits with RBI.

1.2 Narrow Money (M1): It includes currency in circulation, demand deposits and, deposits with Reserve Bank of India.

1.3 M2: It is addition of M1 and post office saving bank deposits.

1.4 Broad Money (M3): It includes M1 and time deposits with the banks.

1.5 M4: It comprises of M3 and deposits with post office saving bank account.

Since 2014, we all are the witness of high fluctuation in money supply in India. The study focuses on the different causes of the fluctuation in money supply. The data regarding this study have been analyzed with the help of different graphical study.

II- Review of Related Studies

Raman (1957) can be considered the first to study money supply in India during the period 1914-50. Raman took the hard currency independently as the case was decided by the government officials and not by any rules. Later Bhatia (1961) Bhatt (1961) and Narvikar (1963) studied the relationship between money supply and reserves.

Lodha, S.L. (2012)found in the book "Determinants of Money Stock: With Special Reference to India" that the money multiplier had been found emerging less important money comparison to high-powered supply in India during 1980-81 to 2011-12. The conclusion increased the role of Reserve Bank of India in controlling the money supply in India.

III- SIGNIFICANCE OF THE STUDY

We have been observing the irregular trend in money supply since August, 2014, in India, continuously. This makes different sectors of economy instable. That is why, study focuses on the money supply fluctuations and on the forces working behind it, so that the study may help the stakeholders in this field. The study will be more significant for the investigators, research scholars, policy makers, and for different related institutions.

IV- OBJECTIVES OF THE STUDY

The study focuses on the pattern money supply after August, 2014 with the different forces working behind these fluctuations in money supply. In the study, different significant schemes of responsible institutions have also been discussed, regarding money supply fluctuations in India. The study involves in the conceptual understandings and theoretical relations of money supply with its` significant factors.

V- ANALYSIS & INTERPRETATION

Pattern of Money Supply (%)								
For the year ended 31st March								
	2013-14	2014-15	2015-16	2016-17[^]	2017-18	2018-19	2019-20	2020-21	2021-22[^^]
Reserve Money (M_0)	14.4	11.3	13.1	-12.9	27.3	14.5	9.4	18.8	12.3
Currency in Circulation	9.2	11.3	14.9	-19.7	37.0	16.8	14.5	16.6	9.7
Bankers' Deposits with RBI	34.0	8.3	7.8	8.4	3.9	6.4	-9.6	28.5	25.3
Currency-GDP Ratio[$]	11.6	11.6	12.1	8.7	10.7	11.3	12.2	14.4	13.7
Narrow Money (M_1)	8.5	11.3	13.5	-3.9	21.8	13.6	11.2	16.2	10.5
Broad Money (M_3)	13.4	10.9	10.1	6.9	9.2	10.5	8.9	12.2	8.7
GDP-M3 Ratio[$]	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.1	1.1
Bank Credit	13.9	9.0	10.9	4.5	10.0	13.3	6.1	5.6	9.6
Non-food Credit	14.2	9.3	10.9	5.2	10.2	13.4	6.1	5.5	9.7

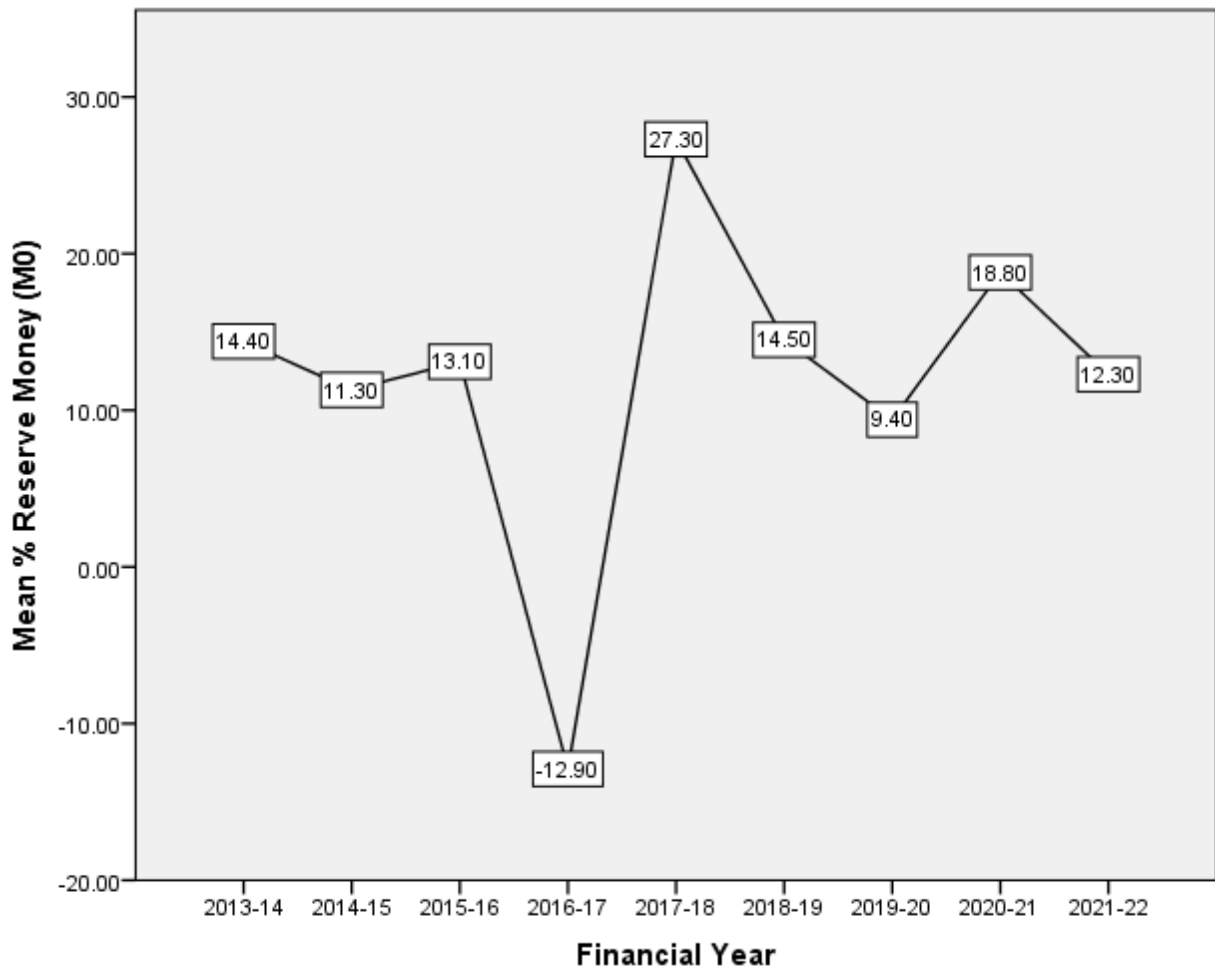| Credit-Deposit Ratio	77.8	76.6	77.7	72.9	75.5	77.7	76.4	72.4	72.2
Credit-GDP Ratio$^{\$}$	53.4	52.4	52.6	50.9	50.5	51.7	51.7	55.3	52.1
Note: 1. Data refers to y-o-y change in per cent unless specified otherwise. **Source: RBI**									

Table no. i

Fig. no. 1 (Source: Table number i, & RBI database)

The above figure no. 1 reflects the pattern in the mean value of reserve money during the study period in percent. The figure shows that the M0 has been moving with frequently ups and downs from 2013-14 to 2021-22, and in 2016-17, it was detected negative in percent.
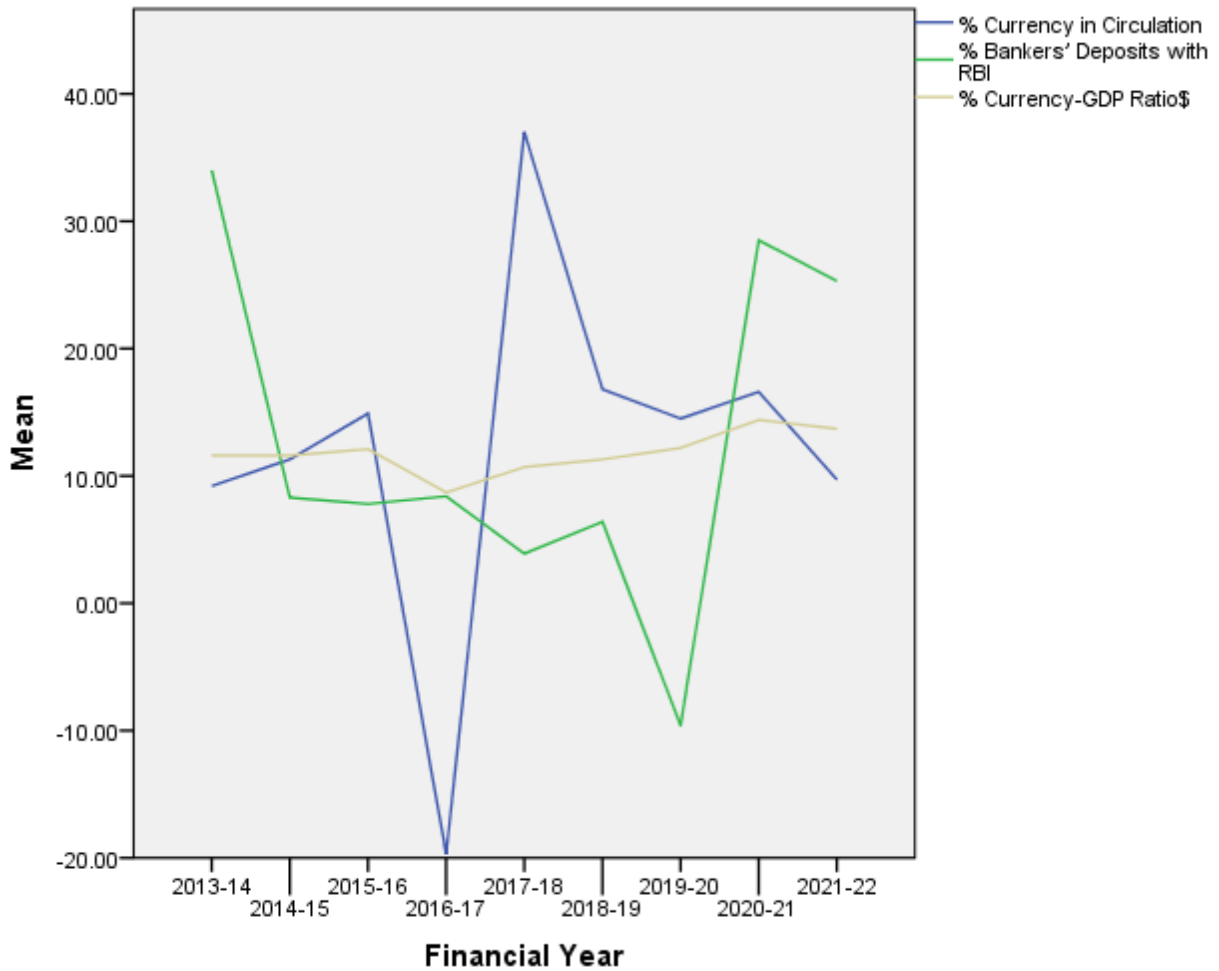
Fig. no. 2 (Source: Table number i, & RBI database)

The figure no.2 shows pattern of currency in circulation, Bankers` deposits with RBI and Currency-GDP ratio. The figure reflects that except currency in circulation, other two variables have not been detected negative but this variable has been found negative in 2016-17, and the root cause of this negative point has been demonetization on 8th November 2016.
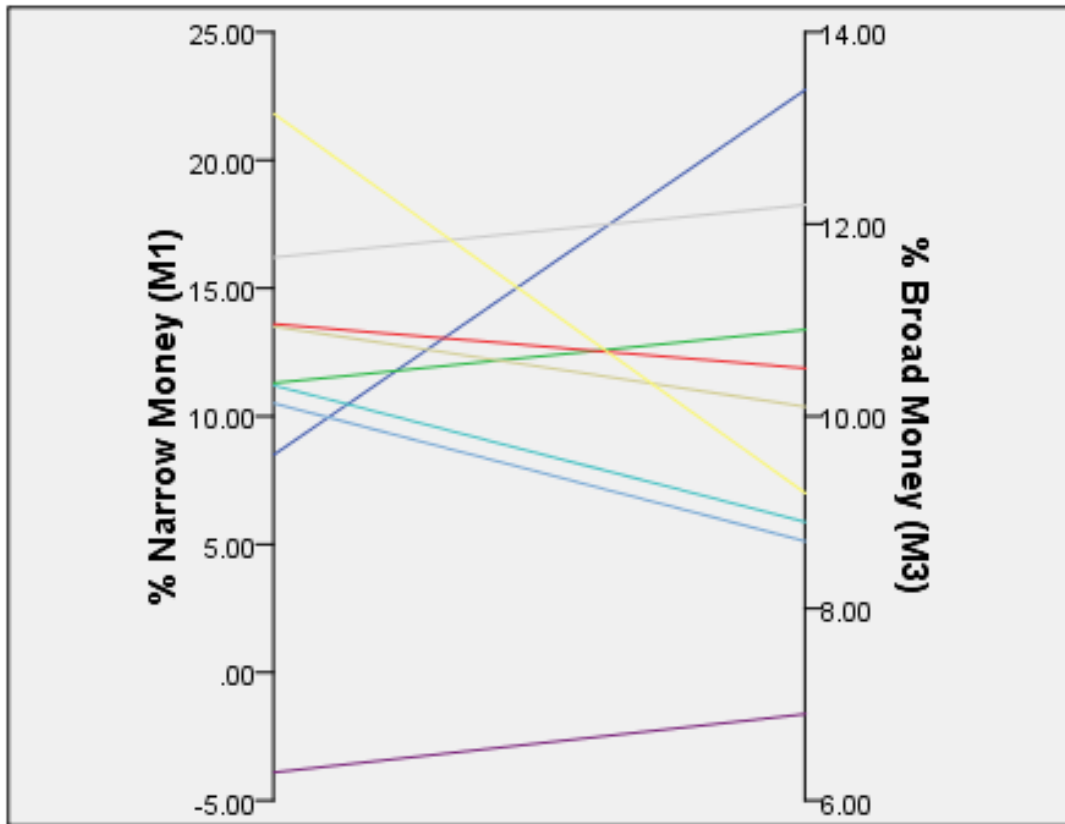
Fig. no. 3(Source: Table number i, & RBI database)

The above figure no. 3 shows the study the relation in the trend of broad money pattern and narrow money pattern during the study period. The figure reflects that once narrow money has been found negative, other-wise both the variables have been moving between each-other during whole study period.
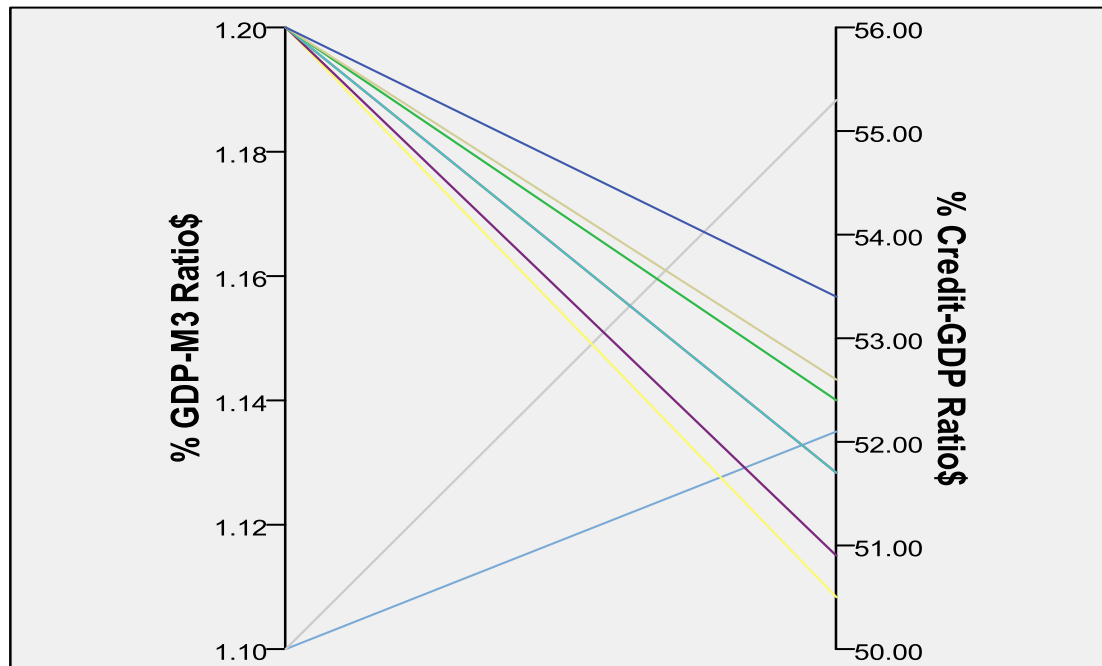
Fig. no. 4 (Source: Table number i, & RBI database)

The figure no.4 shows the parallel trend relation between credit-GDP ratio and M3-GDP ratio, the figure reflects that the rate of fluctuation in both the variables has been almost same during the study period.

VI-   FINDINGS &CONCLUSIONS

The study found slower expansion in broad money supply and reserve money in 2021-22, than 2020-21. As the lower (adjusted) money multiplier reflects large bank deposits under the reverse repo window, the increase in reserves is not fully reflected in the increase in broad money supply.

According to the latest data, as of December 31, 2021, the growth rate of bank loans was 9.2%. At the sectoral level, credit to the agricultural sector continues to grow rapidly, and the industrial sector also appears to be improving. Service sector credit expansion has yet to resume. Overall monetary and credit conditions remain accommodative so far in 2021-2022.

However, as compared to the previous year, the growth rate of money supply such as reserve currency and broad-based currency has dropped. It has been found during study that, On January 7, 2022, (M0) increased by 13% year-on-year, compared to 14.3% in the same period last year. However, after adjusting for the impact of changes in the first-round cash reserve ratio (CRR), M0's year-on-year growth was 7.7%, down from 18.3% a year earlier. Bankers' RBI deposits in components have so far been the main driver of M0 growth in 2021-22, with CRR gradually recovering between March 27 and May 22, 2021. Currency in circulation (CIC) grew by 7.8% year-on-year in January 2022 due to lower demand for cash for precautionary purposes.

Broad money (M3) growth was at 9.9% in 2021-2022, compared with 12.5% in the same period last year. The largest component, total deposits, was the largest contributor to M3 growth for the year. Bank lending to the government is one of the main sources of broad money growth. As banks invest more in liquid and risk-free assets, the government receives more net bank loans. Growth in source M3 was also supported by bank lending to the business sector.

During the study it has been observed that due to Jan-dhanYojna a big fall in currency in circulation has been seen, same pattern had also been seen during 2016-17, due to demonetization, and currently due to other different schemes launched by the Government like Kisan Samman Nidhi, Covid-19 pandemic, and free RasanVitran.

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