

Economic Implications of Money Supply in India: An Analysis

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Abstract- The causality, direction and strength of relationship between money, output and prices has always been a frequently debated topic among policy makers. This issue deserves this attention because it reveals implications of monetary policy. The relationship between these variables has been a debated widely among different schools of thought of economics. The Monetarists claim that money plays an important role and leads to changes in nominal income and prices. The Keynesians, on the other hand, argue that stock of money supply does not play an active role in changing the income and prices. This paper aims to make an empirical analysis on the Changes in Money Supply and its Causes and Consequences in India. However, the specific objectives are to trace the trends in component wise Money Supply in India; to analyse the causes responsible for and the effects of the changes in Money Supply in India; and to explore the Macro Economic Implications of changes in Money Supply in India. This analysis found that the Money Supply in India during the study period has been tremendously increased from Rs. 11020 crs to Rs. 188.46 lakh crs, while the Currency in Circulation has also been increased merely from Rs. 4557 crs in 1970 - 71 to Rs. 28.54 Lakh crs in 2020–21. It is known from the table that as the money supply in India during the study period increases the price level have also changes positively for all commodities invariably except Fuel and Power. But the rate of change differs with commodities. It is a fact that the changes in Money Supply have its influence on the unemployment/employment in an economy through, inflation, GDP, Capital Formation, and others. It is concluded that neither Monetary Policy management nor Fiscal Policy management can bring the effectiveness in the money supply in the economy, but the judicious mix of management of both Monetary Policy and Fiscal Policy can facilitate for effectiveness in the money supply in the economy.

Key Words: Money Supply, Interest Rate, Inflation, Growth Rate, Monetary Policy

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Introduction and Rationale

Amongst the many issues addressed in the economic literature, the money demand has perhaps attracted the most attention. The field of money supply has remained much ignored because of the underlying assumptions that money supply is exogenously determined by the central bank. In fact “In the world where banks use all their reserves, where there is no free reserves, and where both the banks and the public do not undertake any portfolio changes, there is no need to concern ourselves with the money supply. Once we get away from the simple mechanical link between reserves, deposits and money, the supply of money has an independent existence as an economic variable determined by behavior and subject to analysis.” (Fand : 1967). For years there has been continuing debate between two prominent schools of economic thought; Monetarists and Post Keynesians. The debate, which started since the publications of Keynes’ General Theory in mid 1930s, became much heated in the late 1960s’ and in 1970s’. The Monetarist view ‘began to be recognized as a serious challenge to Post Keynesian economics. Monetarists contended that changes in money exert a strong force on aggregate demand, price level and output. The key proposition was that changes in money supply dominate short run influences on price level and on nominal aggregate demand. Bringing in continuity in the debate puts forth an argument about the role of money, which has been based upon the lack of synchronization between transactions receipts and expenditures. In such a case, it is desirable for market participants to hold an inventory of money balances.

However, the relationship between money, output and prices has always been a frequently debated topic among economic policy makers. This issue deserves this attention because it reveals implications of monetary policy. The relationship between these variables has been a debated widely among different schools of thought of economics. The Monetarists claim that money plays an important role and leads to changes in nominal income and prices. The Keynesians, on the other hand, argue that stock of money supply does not play an active role in changing the income and prices.

The recent growth of financial markets with technology aiding faster transactions, and diverse and growing financial services make the stability of the relationship among money, output and prices vital for devising appropriate monetary policy. These developments require investigation in the current scenario of dynamic monetary conditions. This argument can be used to develop a model, which delegates a powerful role of money in influencing the nations’ money supply and has an important influence on economic activity. Managing the nation's money supply is essential so as to assist the economy in achieving a high level of employment, output, relatively stable price level and a viable balance of payment.

The definitions of money supply forwarded by the Reserve Bank of India (RBI) from time to time are available in the propositions of First Working Group (1961), the Second Working Group (1977) and Third Working Group (1998). Opinions on these propositions and other developments like attempts to explore the possibility of replacing simple sum measure of money supply by a weighted sum appeared in studies from 1978 onwards till today.

The First Working Group 1961 (FWG) of RBI for the first time threw light on the concept of money supply in India. The FWG emphasised the role of money as a liquid asset as well as medium of exchange. The FWG defined money supply as consisting of (a) currency notes and coins with the public excluding the balances of central and state governments held at treasuries and cash on hand of scheduled and reporting non-scheduled banks and state co-operative banks, (b) the demand deposits (excluding inter-bank demand deposits) of scheduled and non-reporting non-scheduled banks and state cooperative banks, and (c) the other deposits held with RBI excluding the balance of International Monetary Fund. For scheduled and co-operative banks demand deposits include interbank deposits and some other demand liabilities. Public means all holders of money other than government and the banking system. The Second Working Group 1977 (SWG) mentioned three approaches born out of Radcliffe Committee's, Gurley-Shaw doctrine on the role of non-monetary financial intermediaries in the main economic process and Friedman-Meiselman doctrine of dual criteria. The SWG renamed this measure 'M3'. The SWG introduced two other sources of money stock called M2 and M4. The four measures of money supply for annual compilation developed in India by the SWG (1977) are M1 = currency with public + demand deposits with the banking system + other deposits with RBI; M2 = M1 + saving deposits with post office savings bank; M3 = M1 + time deposits with the banking system; and M4 = M1 + all deposits with post office savings banks excluding National Saving Certificates. The Third Working Group 1998 (TWG) proposed and maintained that compilation of monetary aggregates should be uncomplicated, comprehensive and operationally feasible in terms of frequency of availability of information. Accordingly the group proposed compilation of four measures of monetary aggregates viz M0, M1, M2, and M3.

M0 = currency in circulation + bankers' deposits with RBI + other deposits with RBI. M0 is essentially the monetary base, i.e. reserve money. It is mainly compiled from RBI's balance sheet. The banking system in India, commonly known as commercial banks includes items ii-v as per Banking Regulation Act, 1949.

M1 = currency with public + demand deposits with the banking system + other deposits with RBI = currency with public + current deposits with the banking system + demand liability portion of saving deposits with the banking system + other deposits with RBI. M1 reflects the banking sector's non-interest bearing monetary liabilities; M2 = M1 + time liability portion of savings deposits with the banking system + certificates of deposit issued by banks + term deposits (excluding non resident foreign currency deposits) with a contractual maturity up to and including one year with the banking system = currency with public + current deposits with the banking system + saving deposit with the banking system + certificates of deposit issued by banks + term deposits (excluding non resident foreign currency deposits) with a contractual maturity up to and including one year with the banking system + other deposit with RBI ; M3 = M2 + term deposits (excluding non resident foreign currency deposits) with a contractual maturity up to and including one year with the banking system + call borrowings from 'Non-Depository' financial corporations by the banking system . In addition, the TWG proposed two liquidity measures as substitutes of broad money and inclusive of a range of instruments that may be empirically related to overall economic activities. Based on the above discussions, it obvious to observe that managing the nation's money supply is essential so as to assist the economy in achieving a high level of employment, output, relatively stable price level and a viable balance of payment and so on. Hence, this piece of research work aims to re-examine the causality relationship between money, output and prices in the Indian context. The empirical analysis will deal with metrics for monetary aggregates, prices and output.

Earlier Literatures

There have been few studies made to analyse the economic, monetary and financial implications of money supply at international and national level and since 60s more attempts have been made continuously by Ahrens Dorf J. and S. Kanesathasan (1960); Brunner, K. (1961) ; Ronald L. Teigen (1964); Cagan (1965); Robert Weintraub (1967); Karl Brunner (1968); William R Hosen (1970); Albert E. Burger (1971); Pathak's (1972); Gupta S.B. (1976); Madhur (1976); Kaufman, Herbert M. (1977); Subrahmanyam (1977) Shahi (1978); Shrivastava (1978); Rao, D.C. et al. (1981); Thornton, D.L. (1982); Kamaiah et al (1983) ; Sharma (1984); Nachane and Nadkarni (1985); Kulkarni and Miller (1986); Bhole (1987) ; Jones (1987); Menon (1988); Rangarajan (1989); Singh (1990); Rath.D.et. el. (1998); Singh (1999); Faria and Carneiro (2001); Das (2003); Ramachandran (2004); Ahmed and Mortaza (2005); Abbas and Husain (2006); and Muhd Zulkhibri (2007); Mishra (2010); Lodha, S.L. (2012); Singh C (2015) to mention a few. Though attempts have been made on Money Supply at National and International Level, which are tardy to analyse the Economic Reforms implications and recently no studies have been made in this theme. Hence, here an attempt is made to study the Macro Economic implications of Money Supply in India.

Objectives and Methodology

The core objective of the present paper is to make an empirical analysis on the Changes in Money Supply and its Causes and Consequences in India. However, the specific objectives are to trace the trends in component wise Money Supply in India; to analyse the causes responsible for and the effects of the changes in Money Supply in India; and to explore the Macro Economic Implications of changes in Money Supply in India. Based on the existing literatures and observations, it is hypnotized that there is an increasing trend registered in the Money Supply over the period of time; there is significant difference registered among the different components of Money Supply during the study period; and Higher the Money Supply causing for an increase in output and prices. The secondary data relating to the study such as the component wise Money Supply, GDP, Inflation, Gold Price, etc

from various official documents- RBI Bulletin, Economic Survey, India- Infrastructures Report, web sites, etc have been gathered and used.

Analysis and Discussion

Money supply growth bolstered by aggregate deposits, bank credit growth remains muted. Broad Money (M3) rose by 11.8 per cent in 2020-21 as compared to 8.7 per cent in 2019-20, driven by aggregate deposits and time deposits (10.9 per cent) in particular, suggestive of depositor risk-aversion. Trends in demand deposits tracked changes in currency with the public with the latter rising by 17.8 per cent in the pandemic year of 2020-21 compared to 14 per cent in 2019-20. Owing to shifting preferences towards precautionary cash savings in the uncertain pandemic year, currency deposit ratio stood at 17.3 per cent in 2020-21 as compared to 16.3 per cent in 2019-20 and slightly above its decennial average of 15.2 per cent. On the sources side of M3, net bank credit to government grew by 14.8 per cent in 2020-21 as compared to 13.0 per cent in 2019-20 owing to increase in growth of bank SLR investments by 8 percentage points during the year. As on May 2021, money supply growth stood at 9.9 per cent as compared to 10.2 per cent as on 7th May 2021. Growth in currency with public, demand deposits and time deposits fell in May to reach 13.9 per cent, 16.3 per cent and 8.3 per cent respectively.

It is found from the analysis that the Money Supply in India during the study period has been tremendously increased from Rs. 11020 crs to Rs. 188.46 lakh crs, while the Currency in Circulation has also been increased merely from Rs. 4557 crs in 1970 - 71 to Rs. 28.54 Lakh crs in 2020–21. But in contrary, the % of currency in circulation to total money supply has been tremendously declined. i.e from 41.35% in 1970 – 71 to only 15.14% in 2020 –21. It is also found that the cash with banks has also been increased from Rs. 186 crs in 1970 – 71 to Rs. 1.02 lakh crs in 2020 – 21. There is a direct relationship witnessed that as the % share of cash with banks to total money supply has also been increased from 16.87 % in 1970 – 71 to 54.09 % in 2020 – 21. While the currency with public has also been increased from Rs.4371 crs to Rs.27.52 lakh crs during the same period.. But in contrary the % share of currency with public to total money supply has been tremendously declined i.e from 39.66 % in 1970 – 71 to only 14.60 % in 2020 – 21 which shows the significance of currency with public has been declined due to changes in the monetary management.

It is found that during the period of study, the Bankers Deposits with the RBI that there is direct relations registered, the bankers deposits with the RBI has been increased from Rs. 205 Crs to Rs. 6.99 lakh Crs , similarly the % share of bankers deposits with the RBI to total money supply has also been increased i.e from 1.86 % in 1970 – 71 to 3.70 % in 2020 – 21.It is found that both the Money Supply and Demand Deposits have directly related as the Money Supply increased from Rs. 11020 crs to Rs. 188.46 lakh crs and the demand deposits has also been increased from Rs. 2943 crs in 1970 – 71 to Rs. 1995120 crores in 2020 – 21. But in contrary, the % share of demand deposits to total money supply has been declined i.e from 26.70 % in 1970 – 71 to only 10.58 % in 2020 – 21.The time deposit has been increased from Rs. 3646 crs in 1970 – 71 to Rs. 140.50 lakh crs in 2020 – 21 as the Money Supply increased. Similarly, the % share of time deposits to total money supply has also been increased i.e from 33.08 % to 74.55 % during the study period. The Money Supply and the Other Deposits with the RBI have directly moved in absolute term, but relatively they have moved inversely. i.e the money supply in India during the study period has been tremendously increased while the other deposits with RBI has also been increased from Rs. 60 crs to Rs. 47351 during the period of study. But in contrary the % Share of Other Deposits with the RBI to total money supply has been tremendously declined. i.e from 54.44 % in 1970 – 71 to only 25.12 % in 2020 – 21.

Table 1. Broad Money and Currency Circulation Relations Distribution (Rs. in Crores)

S.N	Period	Broad Money	Currency Circulation	Currency with Public	Cash with Banks
1	1970 - 71	11020	4557 (41.35)	4371 (39.66)	186 (16.87)
2	1975 - 76	22480	7053 (31.37)	6705 (29.82)	348 (15.48)
3	1980 - 81	55774	14307 (25.65)	13426 (24.07)	881 (15.79)
4	1985 - 86	119394	26524 (22.21)	25059 (20.98)	1465 (12.27)
5	1990 - 91	265828	55282 (20.79)	53048 (19.95)	2234 (84.03)
6	1995 - 96	599191	122569 (20.45)	118258 (19.73)	4311 (71.94)
7	2000 - 01	1313204	218205 (16.61)	209550 (15.95)	8654 (65.89)
8	2005 - 06	2719493	429578 (15.79)	412124 (15.15)	17454 (64.18)
9	2010 - 11	6504116	949659 (14.60)	911836 (14.01)	37823 (58.15)
10	2015 - 16	11617615	1663463 (14.31)	1597254 (13.74)	66209 (56.99)

11	2020 - 21	18844578	2853763 (15.14)	2751828 (14.60)	101935 (54.09)
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Sources: Various Issues of RBI Bulletin, RBI, Mumbai; Various Issues of Economic Survey

Table 2. Money Supply and Deposits Relations (Rs. in Crores)

S.N	Period	Broad Money	Other Deposits with the RBI	Bankers Deposits with the RBI	Time Deposits	Demand Deposits
1	1970 - 71	11020	60 (0.54)	205 (1.86)	3646 (33.08)	2943 (26.70)
2	1975 - 76	22480	77 (0.34)	678 (3.01)	9155 (40.72)	6543 (29.10)
3	1980 - 81	55774	411 (0.73)	4734 (8.48)	32350 (58.00)	9587 (17.18)
4	1985 - 86	119394	289 (0.24)	11352 (9.50)	75299 (63.06)	18747 (15.70)
5	1990 - 91	265828	674 (0.25)	31823 (11.97)	172936 (65.05)	39170 (14.73)
6	1995 - 96	599191	3344 (0.55)	68544 (11.43)	384356 (64.14)	93233 (15.55)
7	2000 - 01	1313204	3613 (0.27)	81477 (6.20)	933771 (71.10)	166270 (12.66)
8	2005 - 06	2719493	6843 (0.25)	135511 (4.98)	1893104 (69.61)	407423 (14.98)
9	2010 - 11	6504116	3653 (0.05)	423509 (6.51)	4865771 (74.81)	722856 (11.11)
10	2015 - 16	11617615	15451 (0.13)	501826 (4.31)	9015077 (77.59)	989834 (8.52)
11	2020 - 21	18844578	47351 (0.25)	698867 (3.70)	1050278 (74.55)	995120 (10.58)

Sources: Various Issues of RBI Bulletin, RBI, Mumbai; Various Issues of Economic Survey

During the period of analysis the reserve money has also been increased from Rs. 4822 crs in 1970 – 71 to Rs. 3599981 crs in 2020 – 21 along with Money Supply. Contrarily, the % share of reserve money to total money supply has been sharply declined from 43.75 % in 1970 – 71 to only 19.10 % in 2020 – 21. It is found that the money supply in India is positively related with the Narrow Money during the study period as the Money Supply has increased the narrow money has also been increased from Rs. 7374 crs in 1970 – 71 to Rs. 47.95 lakh crs in 2020 – 21. But in contrary, relatively the % share of narrow money to total money supply has been tremendously declined i.e from 66.91 % in 1970 – 71 to only 25.44 % in 2020 – 21.

Table 3. Broad Money, Narrow Money and Reserve Money Distribution (Rs. in crores)

S.No	Period	Broad Money	Narrow Money	Reserve Money
	1970 - 71	11020	7374(66.91)	4822(43.75)
2	1975 - 76	22480	13325(59.27)	7808(34.73)
3	1980 - 81	55774	23424 (41.99)	19452(34.87)
4	1985- 86	119394	44095(36.93)	38165(31.96)
5	1990 - 91	265828	92892(34.94)	87779(33.02)
6	1995 - 96	599191	214835(35.85)	194457(32.45)
7	2000 - 01	1313204	379433(28.89)	303295(23.09)
8	2005 - 06	2719493	826389(30.38)	571932(21.03)
9	2010 - 11	6504116	1638345(25.18)	1376821(21.16)
10	2015 - 16	11617615	2602538(22.40)	2180740(18.77)
11	2020 - 21	18844578	4794299(25.44)	3599981(19.10)

The relative values of Money Supply relations have been discussed by considering the important Monetary Ratios such as C / DD; BR / DD; C / AD; BR / AD; M1 / RM ; and M3 / RM. It is known from the analysis that most of the Monetary Ratios have been registered with positive sign and also been increased i.e. C/DD was increased from 1.53 % in 1970 – 71 to 1.55 % in 2020 – 21 and BR/DD from 0.14 % to 0.35 %; M3/RM was from 2.26 % to 5.48%. On contrary, the following ratios have been registered negative sign, i.e. C/AD was reduced from 0.68 % to 0.17 % and BR/AD was from 0.06 % to 0.04 % during the study period.

Table 4. Money Supply and Major Monetary Ratios Relations Distribution (Rs. in crores)

S.No	Period	Broad Money	Major Monetary Ratios					
			C / DD	BR / DD	C / AD	BR / AD	M1 / RM	M3 / RM
1	1970 - 71	11020	1.53	0.14	0.68	0.06	1.52	2.26
2	1975 - 76	22480	1.09	0.15	0.45	0.06	1.68	2.81
3	1980 - 81	55774	1.49	0.56	0.32	0.12	1.21	2.95
4	1985 - 86	119394	1.43	0.61	0.28	0.12	1.19	3.24
5	1990 - 91	265828	1.37	0.81	0.25	0.15	1.09	3.11
6	1995 - 96	599191	1.40	0.75	0.26	0.14	1.11	3.10
7	2000 - 01	1313204	1.33	0.51	0.20	0.08	1.26	4.33
8	2005 - 06	2719493	1.18	0.39	0.19	0.06	1.39	4.77
9	2010 - 11	6504116	1.24	0.52	0.16	0.07	1.27	4.97
10	2015 - 16	11617615	1.60	0.52	0.15	0.05	1.23	5.66
11	2020 - 21	18844578	1.55	0.35	0.17	0.04	1.33	5.48

C – Currency with the public; DD – Demand Deposits with bank; RM – Reserve Money
AD – Aggregate Deposits ; M1 – Narrow Money M3 – Broad Money; BR – Bank Reserves

Sources: Various Issues of RBI Bulletin, RBI, Mumbai; Various Issues of Economic Survey

Table 5. Money Supply and Incidence of Inflation Relations (Rs. in crores)

Period	Broad Money	Change in Inflation Rate					
		AC	PA	FA	NF	F & P	MP
1970 - 71	11020	AC	PA	FA	NF	F & P	MP
1975 - 76	22480	-1.1	-6.6	-4.9	-14.6	10.6	1.4
1980 - 81	55774	18.2	15.0	11.4	11.9	25.2	19.2
1985 - 86	119394	4.5	0.1	1.7	-3.3	10.7	6.0
1990 - 91	265828	10.3	13.0	11.9	17.0	12.2	8.4
1995 - 96	599191	8.0	8.2	8.3	9.0	5.1	8.5
2000 - 01	1313204	7.2	2.8	3.0	2.4	28.5	3.3
2005 - 06	2719493	4.5	4.3	5.4	-3.3	13.6	2.4
2010 - 11	6504116	9.6	17.7	15.6	22.3	12.3	5.7
2015 - 16	11617615	-3.7	-0.4	2.6	2.7	-19.7	-1.8
2020 - 21	18844578	1.3	1.7	3.1	1.4	-8.0	2.7

Note : AC – All Components : PA – Primary Articles: FA – Food Articles: NF – Non-Food Articles, F & P – Fuel and power
MP – Manufactured Product

Sources: Various Issues of RBI Bulletin, RBI, Mumbai; Various Issues of Economic Survey

The Money Supply and Inflation nexus is analysed for individual commodity level, i.e. the commodity group wise price variation in response to money supply such as All Components; Primary Articles; Food Articles; Non-Food Articles; and Manufactured Products, except Fuel and Power. It is known from the table that as the money supply in India during the study period increases the price level have also changes positively for all commodities invariably except Fuel and Power. But the rate of change differs with commodities. While, the Money Supply has been tremendously increased from Rs. 11020 crs to Rs. 188.46 lakh crs, the inflation rate has also been increased. Further, it is noticed that the inflation rate for All Commodities was increased from -1.1 % in the year 75-76 to 1.3 % in the year 2020-21. For Primary Articles, it was from -6.6 % to 1.7%; for Food Articles from -4.9% to 3.1%; for Non Food Articles it was from -14.6% to 1.4% and for Manufactured Products it was from -1.1% to 2.7%. For Fuel and Power, it was declined from 10.6% to -8 % during the study period.

Table. 6. Money Supply and GDP Growth, Unemployment and Capital Formation Relations.

Period	Broad Money (Rs. Crs)	GDP Growth Rate	Gross Capital Formation (Rs Crs)	Unemployment Rate
1970 - 71	11020	3.5	7274 (66.00)	12.1
1975 - 76	22480	5.6	15095(67.15)	16.0
1980 - 81	55774	2.8	9012(18.15)	15.7
1985 - 86	119394	7.7	21477(17.98)	13.6
1990 - 91	265828	1.9	35057(13.18)	13.6
1995 - 96	599191	6.5	56276(9.39)	11.0
2000 - 01	1313204	5.1	66959(5.09)	9.6

2005 - 06	2719493	6.4	84757(3.11)	9.3
2010 - 11	6504116	4.2	256368(3.94)	17.8
2015 - 16	11617615	4.8	395709(3.41)	9.7
2020 - 21	18844578	5.6	595131 (3.15)	10.3

Sources: Various Issues of RBI Bulletin, RBI, Mumbai

Various Issues of Economic Survey

It is a fact that the changes in Money Supply have its influence on the unemployment/employment in an economy through, inflation, GDP, Capital Formation, and others. In an economy, Money and Income are important macroeconomic variables which play a crucial role particularly in determining the level of prices and interest rates. The monetarist view, mainly headed by Friedman states that an expansion in the quantity of money may generally expected to result in a rise in general price level and in turn impacts the level of national income. As noted, price stability is an essential condition for stability in economic life as well as economic growth. Fluctuations in prices, on the contrary, create an atmosphere of uncertainty which is not conducive to development activity. Further, if prices rise steadily over a long period, redistribution of national income and wealth takes place to the disadvantage of the poor, which eventually influences the aggregate demand pattern and in turn impacts the level of economic activity in an economy. Thus, the supply of money or stock of money at any period of time has a tendency to impact prices and income levels in the economy and is one of the important active macroeconomic variable which the policy makers have to keep a check on it. Thus, according to monetarists view, the direction of causation runs from money to income and prices without any feedback. However, Keynesians argue that money does not play an active role in changing income and prices. In fact income plays the leading role in changing money stocks via demand for money implying that the direction of causation runs from income to money without any feedback. Similarly, changes in prices are mainly caused by the structural factors. The direction of causation assumes importance especially for a developing economy like India, for effective implementation of its monetary policy. To add to this, the current debate on the causal relationship between money and income in India is certainly, inconclusive especially since India adopted new economic reforms in 1991. Thus, in a developing economy like India, one of the important tasks of the central bank in framing its monetary policy is to understand the causal relationship between money and income and understand the dynamics of future movements of some relevant aspects of the real economy. Detecting the true causal directions among macroeconomic variables between money and income therefore assumes importance and is essential for effectiveness of its monetary policy and design of an appropriate policy. Therefore, here an attempt to investigate the causal relationship between money and income in India is made.

From the analysis, it is observed that as the Money Supply increases the GDP Growth rate has also increased. There is a direct relationship registered between the Money Supply and GDP Growth Rate. It is witnessed that the Money Supply in India has increased from Rs. 11020 Crs to Rs. 18844578 Crs. While that the growth rate has also gradually increased from 3.5 % in 1970 – 71 to 5.6 % in 2020 – 21.

The Money Supply and Unemployment has negative relation registered between the Money Supply and Unemployment rate. It is known from the analysis that while the money supply in India during the study period has been tremendously increased the unemployment rate has also been declined. i.e from 12.1 % in 1970 – 71 to 10.3 % in 2020 – 21.

Both the Money Supply and Gross Capital Formation have directly related in absolute term and in relative term they register different picture. The money supply in India during the study period has been tremendously increased from Rs. 11020 crs to Rs. 188.46 lakh crs with the increase in the gross capital formation from Rs. 7274 crs in 1970 –71 to Rs. 5.95 lakh crs in 2020 –21. But in contrary the % share of gross capital formation to total money supply has tremendously declined. i.e from 16.15 % in 1980 –81 to only 3.15 % in 2020 –21.

Conclusion

Many studies have suggested that there is a need for working out a national consensus on the acceptable level of inflation. What may be called inflation-consensus should be followed by an explicit inflation-mandate. Keeping the price and growth objectives in view, the money supply growth should be so modulated that the inflation rate comes down initially to 6 to 7 per cent and eventually to 5 to 6 per cent. That indeed must be the goal of monetary policy.

Further, it is suggested that well informed debate on the issue of inflationary expectations is necessary to take a view on the computation of real interest rates. From the view point of a proactive policy, it is necessary to have a pragmatic assessment on the anticipated inflation rate.

It is also suggested that there are a variety of policy-perspectives that have a bearing on money supply and its economic relations, and these too need to be analysed on an on-going basis. These relate to the evolving role of quantity variables and rate variables in monetary policy, the changing lags, and the improvements in transmission mechanisms. The transmission-mechanisms are being enhanced but serious rigidities such as the interest-rates for provident funds, administered small savings, etc persists.

Changing Measures on each form of Money Supply should be taken to arrest the problem of inflation, unemployment, growth instability, BoP crisis, etc. and try to go to the root-cause of the problems and solve them. Further, measures should be taken to enhance agricultural productivity, warehousing and supply-chain management. Measures should be taken for Revamping of Public Distribution System which can bring economic stability in the life among the poor people in the country.

Government must undertake the new generation reforms on urgent basis to give single-window clearance to projects in the pipeline, thereby encouraging domestic production and hence augmenting supplies of goods and services.

It is suggested that changes in Monetary Policy alone is not adequate to bring economic stability through Money Supply, but periodical changes in Fiscal Policy is also needed. The revenue deficit must be reduced to zero and further. Policies must be put in

place to ensure that the 'crowding-in effect' of the fiscal deficit is greater than the 'crowding-out' effect. The knee-jerk monetary reaction to any sort of inflation needs to be reconsidered.

As suggested by monetarists, this can be best achieved by maintaining a steady rate of growth of the money supply, roughly corresponding to the long-run growth of the real output in order to achieve price stability and economic disturbances.

For long term price stabilization, the Government has announced a series of measures under the Atma Nirbhar Package viz; Operation Greens project extended from TOP (Tomato, Onion and Potato) to all fruits and vegetables for better price realization of farmers, reduced wastage and affordability of products for consumers; establishing storage facilities in PPP mode to use irradiation technology for food preservation to assist farmers; Essential Commodities Act, 1955 amended to attract investments in storage and warehousing. The effective follow up in the execution of the above said measures is needed for achieving the economic stability.

It is also suggested that the effective Monetary Management and Financial Intermediation can facilitate for economic efficiency in the money supply in the country.

Several measures have been frequently taken by the government and RBI through Monetary Policy during 2020. For instance, the Monetary Policy Committee (MPC) of the Reserve Bank met five times since March 2020. In view of the Covid-19 pandemic, the MPC advanced its first two meetings of 2020-21 from first week of April to end March and from first week of June to 20th May-22nd May. The repo rate has been cut by 115 bps since March 2020, with 75 bps cut in first MPC meeting in March 2020 and 40 bps cut in second meeting in May 2020. However, it is hoped that a periodical measures taken by RBI can be useful to reach the objectives of Monetary Policy through its Money Supply measures.

It is suggested that periodical revision of Monetary Policy on need based can stabilize the employment level, price level, growth rate, Balance of Payment Position and standard of living of the people at macro level in the country. To conclude, it is fond hope that neither Monetary Policy management nor Fiscal Policy management can bring the effectiveness in the money supply in the economy, but the judicious mix of management of both Monetary Policy and Fiscal Policy can facilitate for effectiveness in the money supply in the economy.

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