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Growth of Money Supply in India during 2006-2016

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Abstract:
Money supply plays an important role in terms of affecting the national income, prices, trade etc. There- fore, regulation of required changes in money supply is pre requisite for the smooth functioning of the economy. In a developing country like India when development efforts are made through government expenditure,
Money supply in the economy automatically increases. Hence over expansion of money supply may take place in developing countries like India. Therefore, to regulate the money supply there has always been a need for scientific study on money supply, money supply prepared a base for deciding the short term and the long term monetary and price policies for the economy. So this paper highlights the money supply components and their evaluation.

1. Introduction

In the beginning of human civilization, wants were limited, the level of economic development was very low, the scale of production was small and the exchange was limited. So at that time barter system was in existence. As the society developed, division of labor and specialization increased, as a result volume of production and trades are expand- ed. In such condition, barter system of direct exchange between various commodities created difficulties. In order to overcome those difficulties money was invented. Like other goods, money is demanded to fulfill wants. However, the nature of money differs from other goods like such as food, clothes and houses. Money is a means while other goods like food, cloth and houses are the ends. This implies that money does not fulfill our wants directly; Money is something which is generally accepted as a medium of exchange. Money is an asset to be held by the public.

→ Concept of Money Supply in India: The modern economists are of the view that money is not only a medium of exchange but also a means of store of value. Hence, all financial instruments, which perform the dual function of medium of exchange and store of value, should be included in the supply of money. According to this view, the supply of money consists of currency held with public, demand deposits, time deposits of the banks and also include all those financial assets which are near substitutes of money like bonds, shares etc. But this broader view of the supply of money is not practical. In India RBI includes in supply of money like currency held with people, demand deposits and time deposits.

→ Money Supply in India: Fill 1967-68, the Reserve Bank of India used to adopt only the narrow measure of money supply defined as the sum of currency and demand deposits. From 1967-68 it's started publishing a broader measure of money supply called Aggregate Monetary Resources. It was defined as money narrowly defined plus the time de- posits of banks held by the public. In 1977, RBI has adopted four alternative definitions of money supply. The pre- sent classification of supply of money may be defined as:

Narrow Concept of Supply of Money or (M1): It is the most important in underdeveloped country like India. It includes the following:

- M1 = currency held with public + Demand Deposits + other deposits

→ Currency held with the public: It includes the following elements. Notes in circulation, rupee coins, small coins out of the aggregate there is deducted cash with the banks. Thus currency with the public = Notes in circulation + Rupee Coins + Small Coins – Cash with the banks.

→ Demand Deposits, with banks: Demand Deposits are created in the Banks in two ways (a) active (b) passive. The active de- posits came into being when people deposits cash in the banks. It is called high powered. Money which is issued by both the RBI and Govt. of India. Passive deposits come into being when banks create deposits by sanctioning loan. The effect of second kind of deposits is that the supply of money increases immediately.

→ Other Deposits with RBI: Other deposit with RBI include those deposits Within the institution like Industrial Development Bank, Unit Trust of India and foreign government keep with it.

→ (M2) Concept of Money Supply: M2 Concept includes the components of M1 and the deposits with post office saving banks. Reserve Bank has admitted that the deposits with post office saving banks which can be withdrawn by cheque should be included in M1 because it is same in nature as demand deposits with banks. Saving deposits are withdrawn on demand subject to certain restrictions. But saving deposits to not serve as a medium of exchange because of lack of cheque facility. As such M2 may be defined as M1 and deposits with post office saving banks. Which could not be withdrawn by cheque? But this definition is not operational. Because neither weekly statistics nor the separate statement of the account, non withdraw able by cheque is available. Hence a more practical definition of M2 includes:

- M2 = M1 + Post Office Saving Bank Deposits

Broader Concept of Supply of Money or (M3): M3 includes M1 + Time Deposits with banks.
Time deposits or fixed deposits are repayable after the expiry of the stipulated period. They cannot be withdrawn able by cheque M3 represents Aggregate Monetary Resources.

- M3 + M1= Time Deposits with banks.

M4 Concept of Supply of Money: The concept of M4 in- clues M3 besides total deposits with the post office. It is the broadest concept of money supply.

- M4 = M3 + Total Post Office Deposit except NSC's.

Among these four measures of money supply M1 and M3are the most important from the point of view of policy formulation. M2 and M4 are not used by RBI for policy formulation. So we used M1 and M3 for present analysis.

1.1. Objective of the Study
In the process of investigating the basic nature of money supply the following objective would be examined:
To analysis the increase in money supply in India during 2006 to 2016.

1.2. Defining the Problem
The problems in this study are to know about position of money supply in India.
Research Design: Research design is the first step in methodology adopted and undertaking research study. It is overall plan for the collection and analysis of data in the research project. Thus it is an organized, systematic approach to be the formulation, implementation and control of research project. Infect a well planned and well balanced research design guards against collection of irrelevant data and achieves the result in best possible way.

1.3. Data Collection Method
Data are the bricks with which the researcher has to make a house. The adequacy of appropriate data in turn depends upon proper method of data collection. Data can be collected from two sources.

- Primary Data: Data which are collected fresh and for the first time are called primary data.
- Secondary Data: Data that collected from primary data or they already exist somewhere.

This study is based on secondary data published by RBI and Govt. of India

1.3.1. The Main Sources of Data Are

→ The RBI Bulletin
→ Economic Survey of India
→ Printed Matter
→ Various Books
→ India Public Finance Statistics

1.3.2. Narrow Money Supply (M1)
Narrow concept of supply of money is most important for an under developed country like India. It includes the following:
M1 = C + DD + OD
Here C = Currency held with public
DD = Demand Deposit with Public
OD = Other Deposit with Reserve Bank
The basic data on narrow money supply and its components in India during the period 2006 to 2016 presented

1.4. Growth and Components of Narrow Money Supply in India

1.4.1. During 2006 to 2016(In Billion)
Between FY06–16*, narrow money supply (M1) rose at a CAGR of 7.69 per cent to US$ 392.8 billion,
Source: RBI Annual Bulletin

1.4.2. Broad Money Supply (M3)
M3 = M1+ TD
Here M3 = Broad Money Supply
M1 = Narrow Money Supply
TD = Time Deposits

2. Growth and Components of Broad Money Supply (M3) during 2006 to 2016 (In Billion)

Money supply (M3) grew at a CAGR of 11.14 per cent to US$ 1.8 trillion by the end of October'15

Years	Us Billion
2006	640
2007	759
2008	1026
2009	1064
2010	1206
2011	1452
2012	1602
2013	1570
2014	1605
2015	1783
2016	1839

Table 1
Source: RBI Annual Bulletin
Last Updated: April, 2016

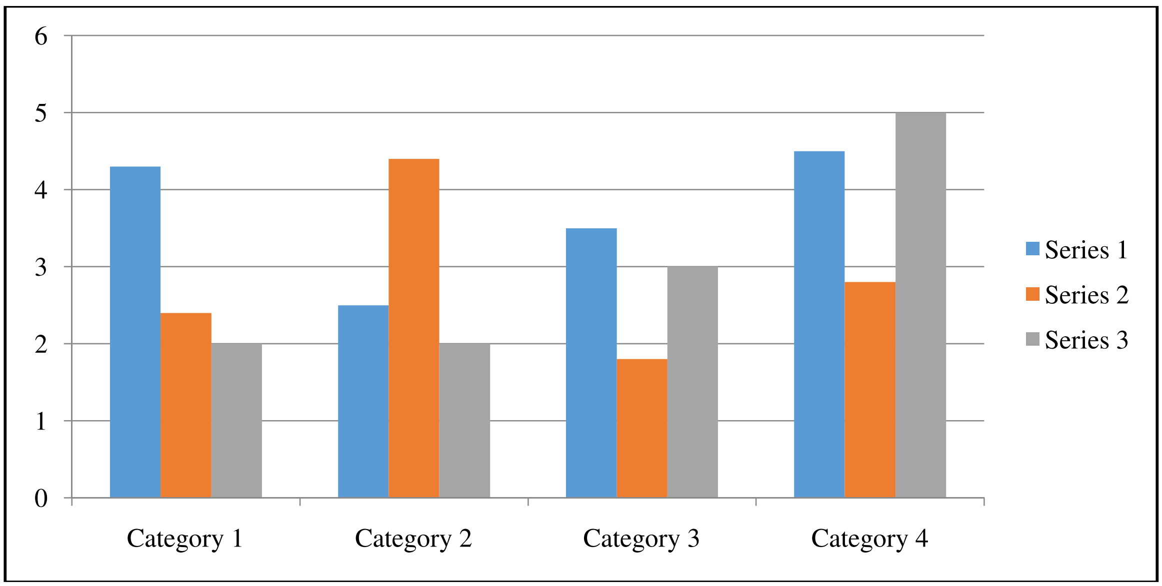

Figure 1: Growth of Money Supply over Past Few Years 2006-2016 (Us Billion)

Time deposits with banks have shown highest average growth of 12.9 per cent during FY06–16*, and stood at US$ 1.44 trillion by the end of October'15

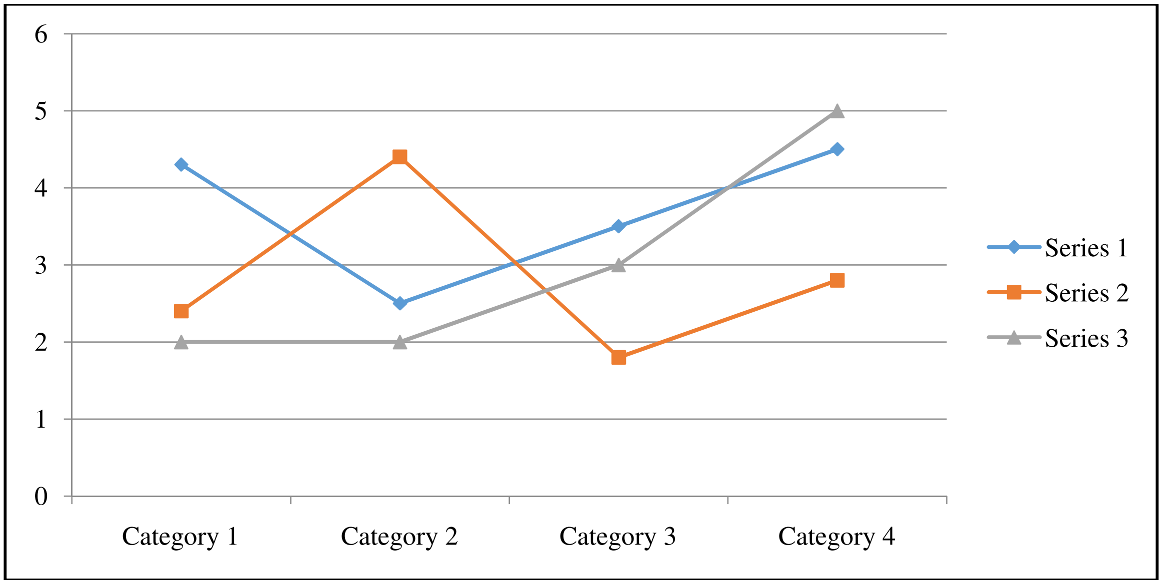

Figure 2

3. Conclusion

It is clear from the analysis of supply of money that the supply of money has increased during the study period (2006-07 to 2015-16). Measure M1 and M3 are studied from the measures of M1, M2, M3, M4 used by Reserve Bank of India and both of those measures (M1, M3) of money supply have increased in India. So we can say that during these Ten years, money supply has increased. There are several reasons such as deficit financing, bankers requirements for loan, Banking habit developed in people because the more banking habits in the people, the less they keep cash money with themselves and they will do more deposits in the bank and the bank will create more credit and increase the supply of money. This increased money supply has caused many problems in the country like India such as the problem of inflation. In highly populated country like India, the demand of goods has increased due to increase in money supply but GDP has not increased in that proportion. As a result, a problem like Inflation is created in India.

4. References

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