



A STUDY OF COMPONENTS OF MONEY SUPPLY IN INDIA (1964-65 TO 2016-17)

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INTRODUCTION

Monetary services in an economy is delivered by various financial assets like demand deposits, saving deposits, time deposits and others. Hence it is very important to define money supply of any economy and evaluate the trends for the same .RBI has defined money supply from time to time. Hence various prepositions of money supply are available. This paper will elaborate the available prepositions and will evaluate the trends for the same from 1964-65 to 2016-17.

This paper will also study the growth rate of reserve money, broad money and narrow money for the same period of time. Correlation between various prepositions is also evaluated.

OBJECTIVES:

- To analyze the trends of Money supply from the period 1964-65 to 2016-17.
- To evaluate the growth rate of Reserve Money, broad money and Narrow money for the period 1964-65 to 2016-17.
- To understand cat gorily the absolute amount and growth rate of Reserve Money, broad money and Narrow money for the period 1964-65 to 2016-17.

- To evaluate the growth rate of all three measures of money supply of Reserve Money, broad money and Narrow money for the period 1964-65 to 201-17.

Research Methodology:

Secondary data from RBI Data base has been used for trends of money supply for the period of 1964-65 to 2016-17. simple percentage is calculated to evaluate change there in.

LITERATURE REVIEW:

The First Working Group 1961 (FWG) of RBI in 1961 were the pioneers to discuss the concept of money supply in India. .The role of money was emphasized as a liquid asset as well as medium of exchange. money supply by FWG was defined as (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.

SWG 1977 came out with the compilation of four measures of money

Supply as follows

M1 = currency with public + demand deposits with the banking system

+Other deposits with RBI

M2 = M1 + saving deposits with post office savings banks

M3 = M1 + time deposits with the banking system

M4 = M1 + all deposits with post office savings banks excluding National

Saving certificate

The TWG stresses that compilation of monetary aggregates should be simple, comprehensive and operationally practicable in terms of frequency of accessibility of information. TWG apart from defining M1, M2, and M3 AND M4 Also introduced the concept of liquidity measure

Monthly compilation

$L1 = M3 + \text{all deposits with post office savings bank except NSC}$

$L2 = L1 + \text{term deposits with Term Lending Institutions and Refinancing Institutions (FIs) + term borrowing by FIs and Certificates of Deposits issued by FIs}$

Quarterly compilation

$L3 = L2 + \text{public deposits of non-banking financial companies}$

TRENDS OF MONEY SUPPLY IN INDIA (1964 -65 TO 2016-17)

Money supply in India has gained momentum after independence. Money supply growth in any country must be higher than the growth of national income, because as income increases, it increases the demand for money for savings. Looking apparently to the trends of Money supply in India, it is obvious that it has always been our strength, but there is lot of fluctuation seen in the growth rate of money supply.

Money supply in India (1964-65 to 2016-17)

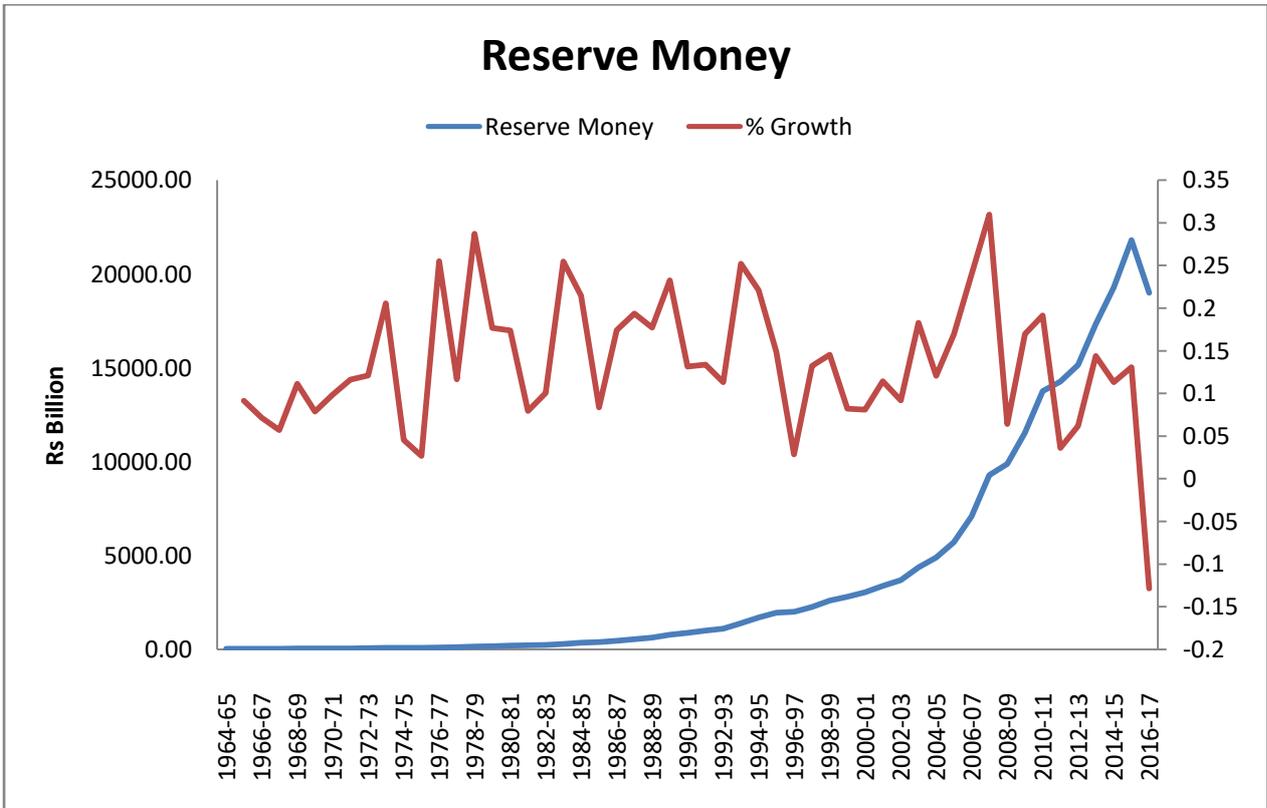
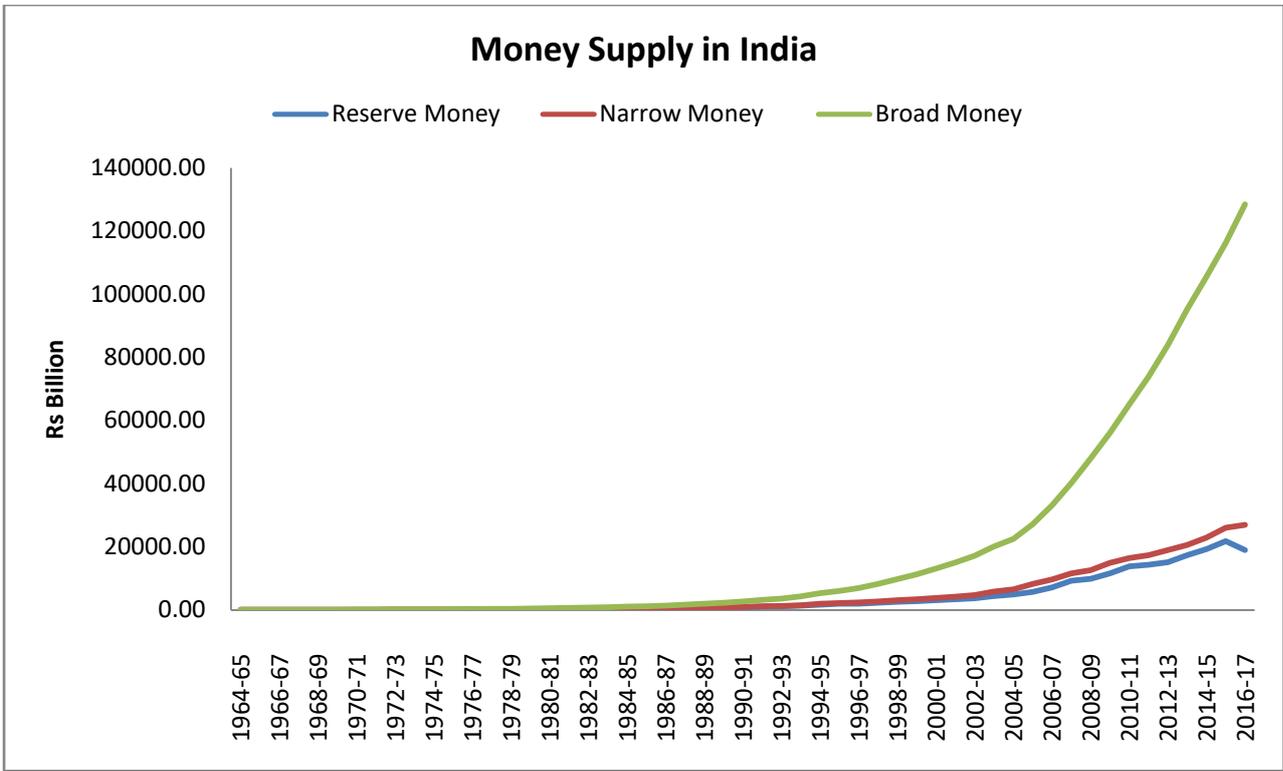
Money Supply in India						
	Reserve Money		Narrow Money		Broad Money	
Year	Rs Billion	Annual Growth	Rs Billion	Annual Growth	Rs Billion	Annual Growth
1964-65	29.62		40.80		54.98	
1965-66	32.33	9.15%	45.29	11.00%	61.34	11.57%
1966-67	34.64	7.15%	49.51	9.32%	68.17	11.13%
1967-68	36.62	5.72%	53.50	8.06%	74.60	9.43%
1968-69	40.69	11.11%	57.79	8.02%	83.06	11.34%
1969-70	43.90	7.89%	65.36	13.10%	96.39	16.05%
1970-71	48.22	9.84%	73.74	12.82%	110.20	14.33%
1971-72	53.82	11.61%	83.23	12.87%	126.93	15.18%
1972-73	60.33	12.10%	97.00	16.54%	150.13	18.28%
1973-74	72.73	20.55%	112.00	15.46%	176.24	17.39%
1974-75	76.04	4.55%	119.75	6.92%	195.49	10.92%
1975-76	78.08	2.68%	133.25	11.27%	224.80	14.99%
1976-77	97.98	25.49%	160.24	20.26%	277.81	23.58%
1977-78	109.41	11.67%	143.88	-10.21%	329.06	18.45%
1978-79	140.82	28.71%	172.92	20.18%	401.12	21.90%
1979-80	165.73	17.69%	200.00	15.66%	472.26	17.74%
1980-81	194.52	17.37%	234.24	17.12%	557.74	18.10%
1981-82	209.98	7.95%	249.37	6.46%	627.52	12.51%
1982-83	231.10	10.06%	285.35	14.43%	731.84	16.62%
1983-84	289.94	25.46%	333.98	17.04%	865.25	18.23%
1984-85	352.16	21.46%	399.15	19.51%	1029.33	18.96%
1985-86	381.65	8.37%	440.95	10.47%	1193.94	15.99%
1986-87	448.08	17.41%	515.16	16.83%	1416.32	18.63%
1987-88	534.89	19.37%	585.55	13.66%	1642.75	15.99%
1988-89	629.58	17.70%	667.86	14.06%	1934.93	17.79%
1989-90	775.91	23.24%	810.60	21.37%	2309.50	19.36%
1990-91	877.79	13.13%	928.92	14.60%	2658.28	15.10%
1991-92	995.05	13.36%	1144.06	23.16%	3170.49	19.27%
1992-93	1107.79	11.33%	1240.66	8.44%	3640.16	14.81%
1993-94	1386.72	25.18%	1507.78	21.53%	4310.84	18.42%
1994-95	1692.83	22.07%	1922.57	27.51%	5275.96	22.39%
1995-96	1944.57	14.87%	2148.35	11.74%	5991.91	13.57%
1996-97	1999.85	2.84%	2406.15	12.00%	6960.12	16.16%
1997-98	2264.02	13.21%	2678.44	11.32%	8213.32	18.01%
1998-99	2592.86	14.52%	3090.68	15.39%	9809.60	19.44%
1999-00	2805.55	8.20%	3417.96	10.59%	11241.74	14.60%
2000-01	3032.95	8.11%	3794.33	11.01%	13132.04	16.81%
2001-02	3379.52	11.43%	4228.24	11.44%	14983.36	14.10%
2002-03	3690.38	9.20%	4735.58	12.00%	17179.36	14.66%
2003-04	4364.90	18.28%	5786.94	22.20%	20056.54	16.75%
2004-05	4891.11	12.06%	6497.66	12.28%	22456.53	11.97%
2005-06	5719.32	16.93%	8263.89	27.18%	27194.93	21.10%
2006-07	7088.61	23.94%	9679.25	17.13%	33100.38	21.72%
2007-08	9282.75	30.95%	11558.10	19.41%	40178.55	21.38%

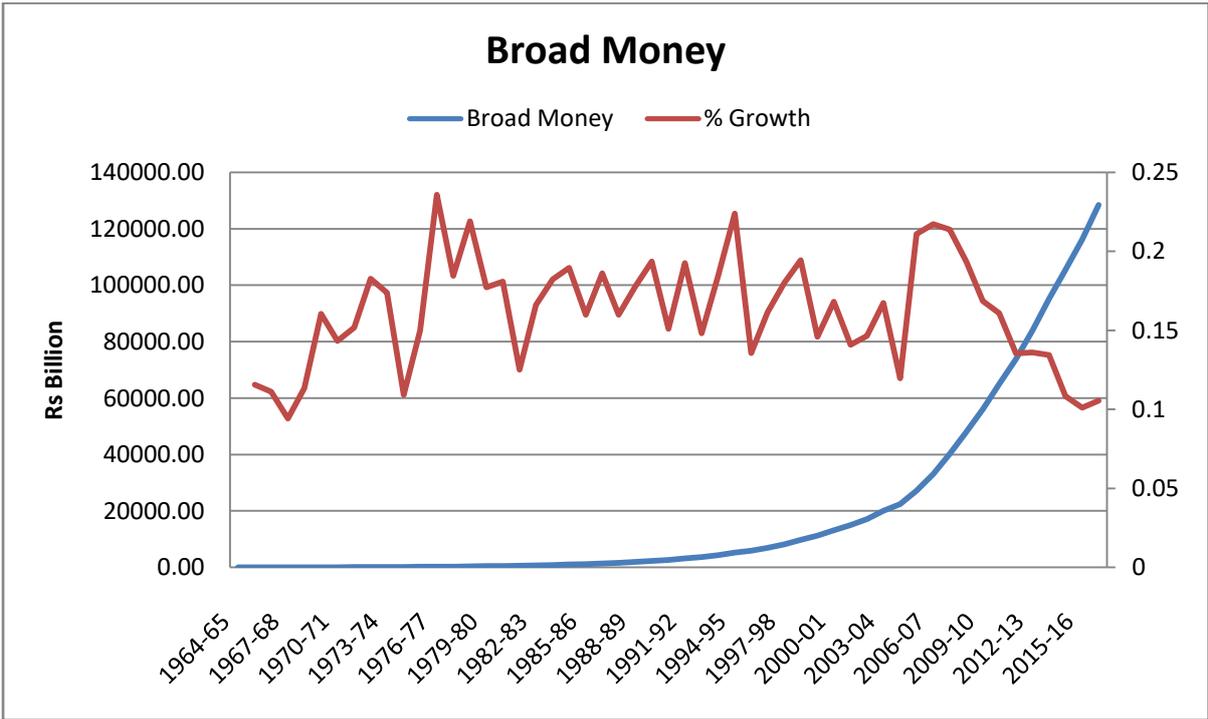
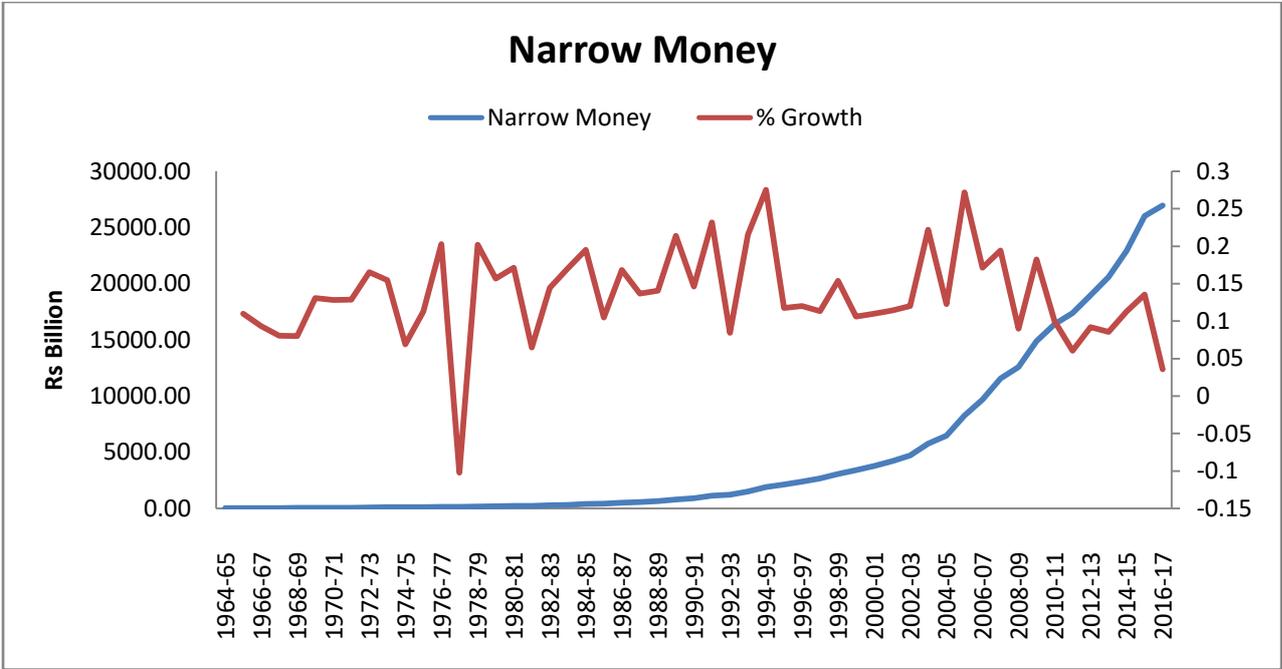
2008-09	9879.61	6.43%	12596.71	8.99%	47947.75	19.34%
2009-10	11556.53	16.97%	14892.68	18.23%	56026.98	16.85%
2010-11	13768.21	19.14%	16383.45	10.01%	65041.16	16.09%
2011-12	14263.44	3.60%	17373.94	6.05%	73848.31	13.54%
2012-13	15148.86	6.21%	18975.26	9.22%	83898.19	13.61%
2013-14	17327.42	14.38%	20597.62	8.55%	95173.86	13.44%
2014-15	19284.63	11.30%	22924.04	11.29%	105501.68	10.85%
2015-16	21807.40	13.08%	26025.38	13.53%	116176.15	10.12%
2016-17	19004.85	-12.85%	26954.31	3.57%	128443.86	10.56%

Source: Reserve Bank of India Database

Money supply growth is highly fluctuating in all six decades there are few interesting outcomes from this.

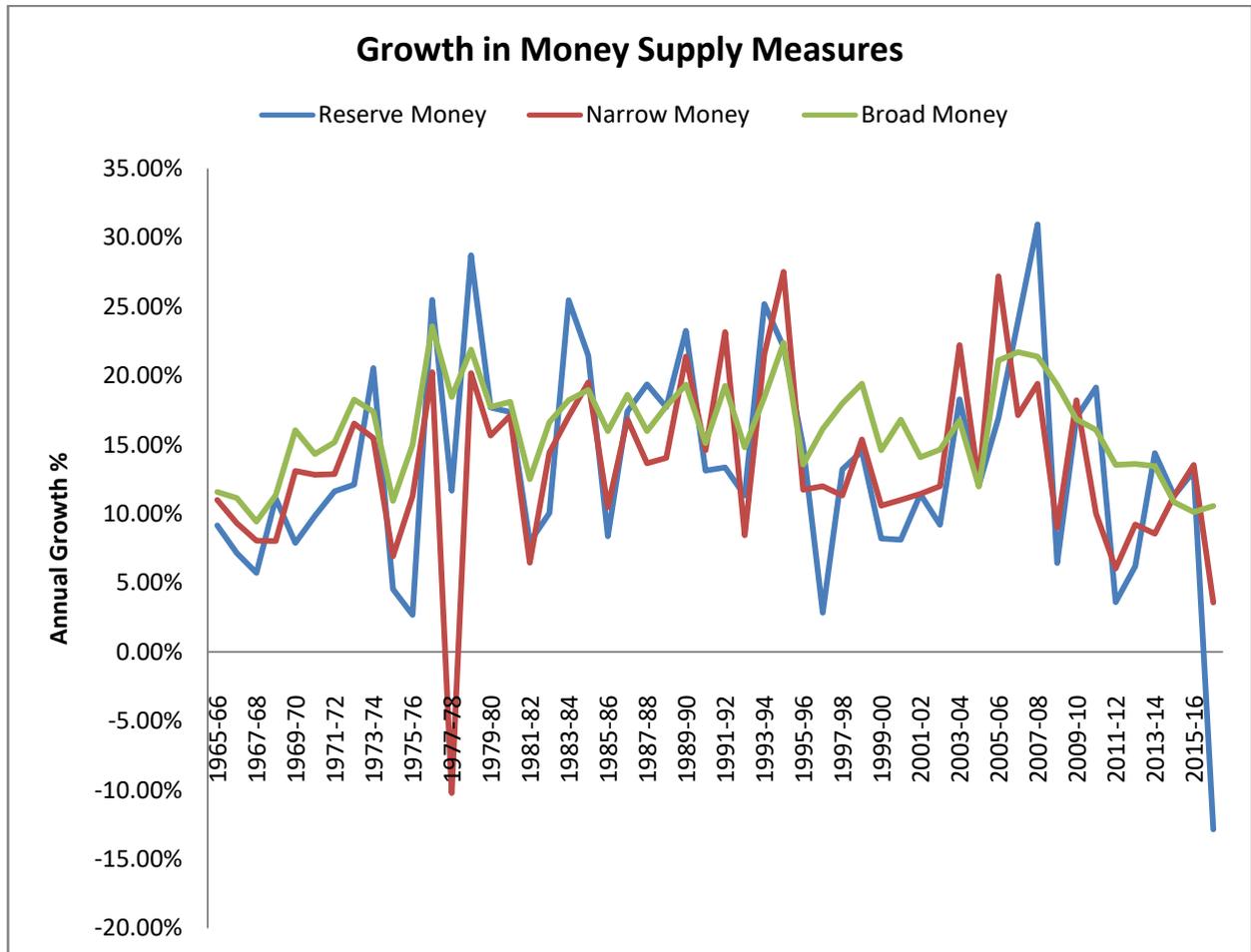
1. The percentage growth of reserve money is very less in 1974-75. It is 20.55% in 1973-74 and 4.55% in 1974-75. There is seen a sudden jump in growth rate of reserve money from 2.68% in 1975-76 to 25.49% in 1976-77. This extraordinary increase in the base money supply could be the result of increase in the bank credit of commercial sector, increase in the net foreign exchange assets during this period and increase in the net bank credit. The growth of reserve money is observed negative in recent past.
2. Growth of narrow money is also observed negative 1977-78.
3. Growth rate of broad money also declined from 2013-14 to 2014-15, but in last three years there is minimal change observed.





The above diagrams clearly indicate that though the growth rate of reserve money, broad money and narrow money is showing lot of fluctuations but there is steady growth in

absolute terms indicating increase in money supply in India which is a positive sign for any developing economy. There is seen a negative movement in reserve money which consists of currency in circulation, banker's deposit with RBI and other deposit with RBI. The reason of this downfall could be the slowdown in the remittances by migrant workers and sluggish deposit rate in India.



The above figure shows that the fluctuation in narrow money is much higher than broad money, which is obvious as such. Lot of fluctuation in narrow money could be because of change in demand deposits by business class during different business cycle. Broad money includes time deposits also which gives it stability over the period of time.

CONCLUSION:

Money supply of any economy is one of the important parameter of its growth. Hence there should be an efficient mix of monetary and fiscal policy leading economy on the growth trajectory. Further correlation matrix between various components of money supply can be studied. This can help in understanding the relationship between them and finding fault line.

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