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MONEY SUPPLY IN INDIA (RECENT TRENDS OF BROAD MONEY)

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Abstract: **The supply of money means the total quantity of money available at any particular time in an economy. Broad definition of Money Supply has been given by Prof. Milton Friedman. According to him, literally supply of money at any particular time means those dollars with whom people move, by putting them in their pockets and which exits in their bank accounts in the form of demand deposits and term deposits. Thus, in terms of equation: Supply of money (Ms) = Currency with the public + other deposits with Reserve Banks + Total Demand deposits in the banks + total term deposits in the banks. Earlier Government of India and RBI used old concepts of money supply consisted of M1,M2,M3,M4. RBI has redefined the concept of money supply and new concept is given which consists M0,M1,M2,M3. According to this conceptM0 is said Reserve Money, M1 is said Narrow Money and M3 is said Broad Money. The concept of M4 has been abolished. The concept of broad money is more frequently used by RBI. Commercial banks also formulate their lending policy according to it .Broad money is also said Aggregate Monetary Resources(AMR). Broad money consists (1) Currency with the public (2) Demand deposits with the banks and (3) Other deposits with RBI. A study of last ten years (2011-12 to 2021-22) shows declining growth rates of broad money. Growth rate of time deposits which is an important constituent of broad money also decreasing which may be a matter of consideration for both RBI and commercial banks specially keeping the deposit policy in mind.**

Keywords: **Money supply, Reserve Money, Narrow Money, Broad Money, RBI, Time Deposits.**

MEANING OF SUPPLY OF MONEY

In general sense, the supply of money means the total quantity of money available at any particular time in an economy. Whereas among classical economists, J.S. Mill and Ricardo considered the supply of money, equal to multiplication of total available supply of legal money with velocity of its circulation, i.e. total supply of money M= MV. Later on, Irving fisher incorporated credit money and velocity of credit money also, in it and stated supply of money as Ms= MV+M'V'. This concept developed in Keynesian concept, according to which supply of money

(M_1) = Currency with public + total of demand deposits in the banks. This is the narrow definition of supply of money.

Broad Definition of Money Supply has been given by **Prof. Milton Friedman**. According to him, literally supply of money at any particular time means those dollars with whom people move, by putting them in their pockets and which exits in their bank accounts in the form of demand deposits and term deposits. Thus, in terms of equation:

Supply of money (Ms) = Currency with the public + other deposits with Reserve Banks + Total Demand deposits in the banks + total term deposits in the banks.

Most Broader Approach: The most broader approach towards supply of money was presented by **Prof. Gurley and Shaw** in their book named, **"Money in Theory of Finance"** according to which '**supply of money includes currency with the public, total demand deposits in the banks, total term deposits in the banks, saving account deposits, deposits with loan providing institutions**, **house building societies and other financial institutions'**. But, some scholars do not consider this definition appropriate, because the Monetary Authority has no direct control over the deposits in other non-banking institutions.

From the view point of monetary policy only that concept may be considered appropriate, in which Monetary Authority has direct control. In this prospective, the definition by Milton Friedman for supply of money is appropriate, and broad.

FOUR OLD CONCEPTS OF MONEY SUPPLY IN INDIA

Following four concepts of money supply were prevalent in India and Reserve Bank of India also published statistics of money supply accordingly:

M_1, M_2, M_3 and M_4

Their brief description is as follows:

(1) M_1 : This was a narrow concept of money supply, that is why it was said to be narrow money. In this concept, following three constituents were included in the money supply.

(i) Currency with the public (notes+ coins)
(ii) Demand deposits with the banks.
(iii) Other deposits with Reserve Bank of India, which include demand deposits of foreign Government, other central banks of the world, International Monetary Fund and the World Bank. In brief M_1 = (i+ ii+ iii)

(2) M_2: This was a relatively broader concept. To ascertain M_2 deposits in Post Office saving banks were also added to M_1.

Hence, $M_2 = M_1$ + Post Office saving banks deposits.

(3) M_3 : This was a highly prevalent and popular concept of money supply in India. In it, M_3 was calculated by adding term deposits of the banks to M_1. In brief, it was called aggregate monetary resources.

M_3 = (i+ii+iii) + (iv) time deposits of banks

(4) M_4 : This concept was quite broad, but it was not used much in money supply. M_4 was ascertained by adding all deposits of Post Offices to M_3.

Hence, M_4 = i+ii+iii+iv+v (Total deposits of post offices).

Thus, it is clear that earlier four concepts, M_1, M_2, M_3 and M_4 of money supply were prevalent in India, but out of these, only two concepts M_1 and M_3 were particularly in use. Whereas M_1 was the narrow form of money supply, M_3 was a broader concept, which included all the components of money supply. That is why, as stated earlier, M_3 was considered to be the aggregate monetary resources.

Government of India has changed the components of money supply in 1998-99. The new components of money supply are as follows:-

FOUR NEW CONCEPTS OF MONEY SUPPLY IN INDIA[1]

Reserve Bank has re-defined the concepts of money supply, quite afresh, on the recommendations of a working group, constituted by it. As a result, four new concepts of money supply, M_0, M_1, M_2, M_3 have been propounded, in place of old concepts, M_1, M_2, M_3, M_4 , Which are as follows :

(A) Monetary Aggregates

(1) M_0 = This is an absolutely new concept of money supply. Following items are included for its calculation :

M_0 = (i) Currency in circulation,
(ii) Bankers' deposits with Reserve Bank,
(iii) Other deposits with Reserve Bank.

Or

M_0 = (i) Currency in circulation + (ii) Bankers' deposits with RBI+ (iii) Other deposits with RBI

(2) M_1 = (i) Currency with the public + (ii) Demand deposits with the banking system + (iii) Other deposits with the RBI

It is clear from the aforesaid calculation formula that no change has been made in M_1, concept of money supply in the new system. It continues as before and even now, it is called **narrow money**.

(3) Calculation of M_2 has been revised. Now, Post Office saving bank deposits have been deleted for its calculation and several new items have been added. Its calculation includes the following:

M_2 = M_1 + Time liabilities portion of saving deposits with the banking system + certificate of deposits issued by banks + term deposits issued by banks + term deposits (excluding FCNR (B) deposits) with a contractual maturity upto, and including one year with the banking system.

Or

M_2 = Currency with the public + Current deposits with the banking system+ other deposits with RBI + term deposits [excluding FCNR (B) deposits] with a contractual maturity upto and including one year with the banking system.

Concept of M_3 has been amended and as earlier even now, it is called as **broad money**. Its calculation includes following items :

M_3 = M_2 + term deposits [excluding FCNR (B) deposits] with a contractual maturity of over one year with the banking system + call borrowings of the banking system.

Here, it is noteworthy that in new concepts of money supply, M_4 Concept has been abolished. Now new concepts of money supply include concepts M_0, M_1, M_2, and M_3 Only.

The concept of broad money used more frequently which is a concept of aggregate monetary resources and its includes M1 plus and time deposits of all commercial and co-operative banks' data are included. The concept of M3 or aggregate monetary resources is most popularly used in India at present. With this money banks run their lending programmes.

Broad Money (M_3) Components and Source Side

M_3 (Component side)

M_3= M_1+ Time deposits.

Money Supply (M_3)	= Currency with the public + Demand deposits with banks + Time deposits with banks + 'Other' deposits with RBI ... **[Components side]** = Net bank credit to the government + Bank credit to the commercial sector + Net foreign exchange assets of the banking sector + Government's currency liabilities to the public – Net non-monetary liabilities of the banking sector ...[Sources side*]
Currency with the public	= Currency in circulation – Cash with banks

[1] Indian Economic Survey, 1998-99, p. 37.

Net bank credit to the Government	= Net RBI credit to gvernment + Other banks' investment in government securities
Bank credit to the Commercial Sector	= RBI credit to commercial sector + Other banks' credit to commercial sector
Net foreign exchange assets of the banking sector	= RBI's net foreign assets + Net foreign exchange assets of other banks
Net non-monetary liabilities	= RBI's net non-monetary liabilities + Net non-monetary liabilities of other banks

**: Effective July 11, 2014, the amount provided by RBI under repo, term repo and MSF to banks is treated as 'loans and advances to banks'. The securities provided by banks as collaterals are excluded from the Net RBI credit to Government. The change is, however, money neutral with offsetting variations taking place in other banks' investment in government securities*

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Components and Growth Rates of Broad Money M_3

Year	Currency with the Public	'Other' Deposits with the RBI	Demand Deposits	Time Deposits	**Broad Money(2+3+4+5)**	Growth Rate OF Broad Money	Growth Rate of Time Deposits
1.0	2.0	3.0	4.0	5.0	6.0	7.0	8.0
2011-12	1023670.0	2822.0	710902.0	5647437.0	**7384831.0**	-	-
2012-13	1141061.0	3240.0	753225.0	6492293.0	**8389819.0**	13.6	15
2013-14	1245819.0	1965.0	811978.0	7457624.0	**9517386.0**	13.4	149
2014-15	1386182.0	14590.0	891632.0	8257764.0	**10550168.0**	10.9	10.7
2015-16	1597254.0	15451.0	989834.0	9015077.0	**11617615.0**	10.1	9.2
2016-17	1264124.0	21091.0	1396741.0	10109983.0	**12791940.0**	10.1	12.1
2017-18	1759712.0	23907.0	1483712.0	10695255.0	**13962587.0**	9.2	5.8
2018-19	2052209.0	31742.0	1626512.0	11721603.0	**15432067.0**	10.5	9.6
2019-20	2349748.0	38507.0	1737692.0	12674016.0	**16799963.0**	8.9	8.1
2020-21	2751828.0	47351.0	1995120.0	14050278.0	**18844578.0**	12.2	10.9
2021-22	3035689.0	58444.0	2212992.0	15186605.0	**20493730.0**	8.8	8.1

Source: Reserve Bank Of India

Conclusion: If we study last 10 years' data we find that there is decling trend in broad money. there may be a lot of reasons for this but as we have discussed earlier that M_1 and M_3 are more important concept study of time deposits becomes more important. Study of growth rate clearly shows declining trends of time deposits, which may be a consideration for commercial banks. As a regulator of banks also RBI should observe these decreasing trends so that banks can determine their deposit and lending policy.

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