A STUDY ON THE IMPACT OF THE MONEY SUPPLY ON ECONOMIC GROWTH IN INDIA

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Abstract

This study examines the impact of the money supply on economic growth in India by analyzing the relationship between changes in the money supply and key macroeconomic indicators such as Gross Domestic Product (GDP), inflation, interest rates, and investment. The study aims to understand how monetary expansion influences economic activity, productivity, and overall development in the Indian economy. Using secondary data collected from reliable sources such as the Reserve Bank of India (RBI), Ministry of Statistics and Programme Implementation (MOSPI), and other government publications, the research evaluates trends in money supply and economic growth over a selected period. Statistical and descriptive analytical methods are employed to identify the nature and extent of the relationship between these variables. The findings are expected to show that a well-managed increase in the money supply can stimulate investment, consumption, and employment, thereby promoting economic growth, while excessive monetary expansion may lead to inflationary pressures and financial instability. The study concludes by emphasizing the importance of maintaining an optimal level of money supply through effective monetary policy to achieve sustainable economic growth and macroeconomic stability in India.

CHP:1 INTRODUCTION

A financial system refers to a system which enables the transfer of money between investors and borrowers. A financial system could be defined at an international, regional or organization level. The term “system” in “Financial System” indicates a group of complex and closely linked institutions, agents, procedures, markets, transactions, claims and liabilities within an economy.

FIVE BASIC COMPONENTS OF FINANCIAL SYSTEM:

- Financial Institutions
- Financial Markets
- Financial Instruments (Assets or Securities)
- Financial Services
- Money

FINANCIAL MARKETS:

A financial market is the place where financial assets are created or transferred. It can be broadly categorized into money markets and capital markets. Money market handles short-term financial assets (less than a year) whereas capital markets take care of those financial assets that have maturity period of more than a year. The key functions are:

1. Assist in creation and allocation of credit and liquidity.
2. Serve as intermediaries for mobilization of savings.
3. Help achieve balanced economic growth.
4. Offer financial convenience. One more classification is possible: primary markets and secondary markets. Primary markets handle new issue of securities in contrast secondary markets take care of securities that are presently available in the stock market. Financial markets catch the attention of investors and make it possible for companies to finance their operations and attain growth.

Money markets make it possible for businesses to gain access to funds on a short-term basis, while capital markets allow businesses to gain long-term funding to aid expansion. Without financial markets, borrowers would have problems finding lenders. Intermediaries like banks assist in this procedure. Banks take deposits from investors and lend money from this pool of deposited money to people who need loan. Banks commonly provide money in the form of loans

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CHP:2 Research methodology

Objective of study:

1. To study long run market efficiency or market integration.

2. To study the relationship between short run and long run efficiency.

3. To study about Indian Money Market and its related aspects like its types and

instruments.

4. To study about Indian Money Market its related aspect history, organizational structure, participants.

5. To study the dynamics of the sub markets of money market.

6. To study and find the prerequisites for an efficient money market.

7. To study about recent development in money market in India.

8. To study the different types of money markets instruments and their maturity and minimum amount of investments and the level of risks included in them.

Limitations of the study:

- **Period:** Since the period of study is limited to one year in way excluded the quality of money market increase over period of time.
- **Area:** The primary data for research will be collected from Kalyan only as the study is based on a limited scope of area.
- **Specific:** There is not much data available for the secondary research also whole market cannot be studied.

Methodology of the study:

The paper attempts to perform a descriptive analysis by taking the primary as well as the data Google Forms, Interviews, Journal Articles, Reports and Internet, respectively. Extensive use of primary data for analysis and the results of the research are explained in the study. There is a sampling method Used for data collection and analysis.

The set of questions asked in the form and in the interviews is as follows:

- Gender
- Age
- Occupation
- It is necessary to have knowledge about money market instruments.
- Money market instruments can be hold for long period of time.
- Change in one market can be used to regulate other market.
- Financial market in India have achieved market efficiency.
- Treasury bills market in India is very narrow and underdeveloped.
- Money market instruments are riskless.
- Do you find individuals invest in money market mutual funds because it has low risk.
- The performance of the Indian Money Market has been outstanding in the past 20 years.
- Do recession have affected investment decisions.
- RBI plays the important role in regulating and controlling the Indian Money Market.
- Money Market should start from reorganizing rural financial structure so that funds can sufficiently flow to the wider activities.
- Due to various policy initiatives by the RBI have facilated development of a wider range of instruments.

Hypothesis:

Hypothesis is the prediction of outcome of the study.

1. It is expected that market would take over in such a manner that they lead to stabilization and market efficiency in the longer run.
2. Quality of money market increase over period of time.
3.

Review of literature:

(shah, 2015)

Article: Money market Integration in India: A Time series study

Rastogi Nikhil says Indian financial markets have come a long way from the highly controlled pre-liberalization era. He signifies that the main focus is on achieving efficiency, which is the hallmark of any developed financial market. This research paper tests the efficiency and extent of integration between markets empirically at the short end of the market. The rates, mainly taken for the purpose of this study, comprise the call market rate, CD (Certificate of Deposit) rate, CP (Commercial paper) rate, 91-day T-bill (Treasury bill) rate and 3-month forward premium. The results, though promising, are mixed. In his research he concluded that although markets have achieved integration. This has absolute implications on the monetary policy of the Reserve Bank of India. (RBI) since changes in one market (glit market) can be used to regulate the other market (forex market).

(yadav, 2017)

The Indian money market was controlled by tight controls and administered interest rate structure up to late 1980s. However, following the policy measures during the early 1990s the money market has become broad based with the enlargement of participants and instruments, and change in liquidated conditions is quickly transmitted. The reform measures have greatly contributed to the development of inter-linkages; increasing liquidity across various segments of the money market. An enabling environment has thus been created whereby the monetary authority can gradually switch away from the direct instruments of control to indirect methods like open market operation, including repos. The market determined interest rate is gradually emerging as an important intermediate target with the ultimate objective of achieving price stability and economic growth

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The paper by Parmar (2002) attempts to analyze the behavior of call money market in India. It also attempts to view the interlinkage among three markets that is Call money, Stock market and foreign exchange market in India during the post-reform period. This paper is being critically examined only from the point of view of the call money market and the methodology used namely; cointegration. The Sample Period is March 1993 till December 2000. The paper tries to see the working of Call Money Market (CMM) or the overnight inter-bank market in India. It also attempts at examining the behavior of CMM and its inter-linkages with foreign exchange & stock market in post reform India. The inter-linkages, which have been studied under a co-integration framework, suggest the existence of one co-integrating vector among them. Furthermore, this long-term relation implies that the volatility in one of the markets possibly gets transferred to the other markets. So, players in these markets keep shifting their funds in the expectation of earning higher returns and to reduce their exposure to risk. The paper points out towards the methodological need for studying the interrelationship between sub markets. This basis has been incorporated into our methodology.

CHP:3

INDUSTRIAL PROFILE

The Indian Human Resources and Staffing Industry is a rapidly evolving sector sitting at the intersection of human capital management and deep-tech innovation. It serves as the critical bridge between India's massive talent pool and the specialized workforce demands of the domestic and global corporate sectors. Historically driven by manual recruitment and traditional payroll, the industry is currently undergoing a massive structural shift fueled by the integration of Artificial Intelligence, automated Human Resource Management Systems (HRMS), and the formalization of the Indian workforce.

- Key Sectors: HR Technology (SaaS and HRMS platforms), General & IT Staffing, Corporate Training & Upskilling, and Total Workforce Management (WFM).
- Global Standing: India represents one of the largest and most dynamic talent markets globally, heavily fueling both domestic manufacturing and international IT/Tech services.
- Regulatory Landscape: Governed by the Ministry of Labour and Employment, with modern compliance heavily focused on the impending implementations of the new Labour Codes and strict data privacy standards (such as the DPDP Act).

Market Size & Key Financial Metrics (2025/2026 Estimates)

The industry has witnessed exponential growth, driven by post-pandemic digital adoption, the rise of gig/contract work, and massive technological upgrades by corporate HR departments.

- HR Tech Market Size: The Indian HR Tech market is experiencing a robust growth trajectory. It is projected to reach approximately $38.36 Billion USD (roughly ₹3.2 Lakh Crore) by 2030, growing at a steady CAGR of nearly 6%.
- Staffing Industry Valuation: The Indian staffing industry has scaled significantly, surpassing revenues of ₹45,000 Crore in recent fiscal years. Globally, the staffing market is a massive $500+ billion industry, and India is one of its fastest-growing regional hubs.

- Upskilling Demand: The demand for continuous learning and capability building is surging. Recent industry reports indicate that 85% of early-career professionals (those with less than three years of experience) consider structured upskilling and tech workshops crucial for career advancement.

Market Segmentation

The sector is broadly divided into three interconnected verticals, perfectly mirroring Inkonsul's operational footprint:

1. Workforce Management (WFM) & Staffing: The largest revenue contributor in the sector, subdivided into:
   - *General Staffing:* Volume-driven talent placement in retail, manufacturing, and FMCG.
   - *IT & Specialized Staffing:* A high-margin segment driven by niche technology demands (Full Stack Development, GenAI, Cloud) and mid-to-senior level recruitment.
2. HR Technology (HRMS & SaaS): The product-led arm of the industry. Companies in this space develop tailored software modules for core operations, specifically focusing on Time, Attendance, Leave management, automated payroll processing, and digital onboarding interfaces.
3. Talent Development & Mentorship: Encompasses B2B corporate capability building (training managers on new tech modules), employee engagement initiatives, and academic-to-corporate bridge programs (such as college workshops and internship enrollments).

Key Trends Shaping the Sector in 2025/2026

1. AI-Driven HR Operations: Generative AI is revolutionizing the workspace. An estimated 80% of leading staffing and HR firms are actively investing in AI. It is being deployed not just for resume screening, but for the rapid automated creation of company policies, job descriptions, predictive attrition modelling, and automated payroll workflows.
2. Bridging the Academic-Corporate Gap: With rapidly shifting technology requirements, there is a critical trend of HR and tech firms directly partnering with educational institutions. Organizing interactive career counselling, leading pre-placement tech workshops (like GenAI or Full Stack boot camps), and structuring corporate internship enrolments are becoming vital strategies to secure and mold top-tier early talent.

3.2 COMPANY PROFILE

Company Overview

Inkonsul Technologies Private Limited is a specialized technology and human resources consulting firm based in Hyderabad, Telangana. The company bridges the gap between modern technology and human capital, focusing on custom HR software development, strategic staffing, and specialized capability-building programs for both the corporate and academic sectors.

- Founded: February 2022
- Headquarters: Nallakunta, Hyderabad, Telangana
- Industry: Business Services / HR Technology
- Company Type: Private Limited Company

Key Leadership

- Venkata Anil Kumar Reddy Mudela: Founder & Director
- Mudela Gowtham: CEO

History & Milestones

- 2022: Officially incorporated as a Private Limited Company on February 22, 2022, establishing its registered office in Prashanth Nagar, Miyapur.
- 2025: Expanded core HR operations into custom product development and heightened corporate engagement, including organizing workplace programs at its Head Office for India's National Safety Week.
- 2026: Scaled up advanced educational initiatives and community outreach, notably organizing the 2-day "TechXplore" workshop focused on Generative AI and Full Stack Development, and expanding interactive career counseling and internship enrollments at institutions like St. Francis College.

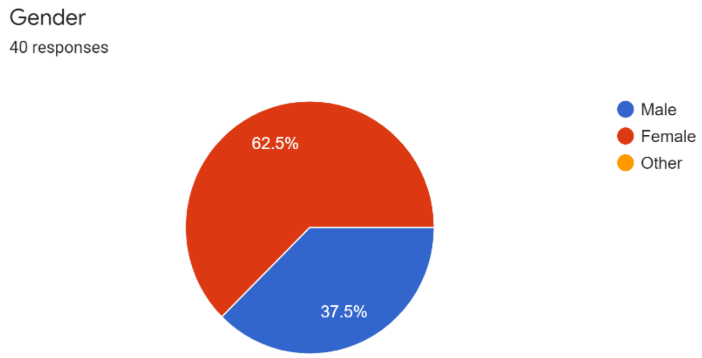
CHP:4 Data analysis, Interpretation and Presentation

As a part of my research, I have prepared a questionnaire and collected some Responses to find the views of various people who provide services.

"A study on Indian Money Market" is the Topic of my project and listed down below are few questions that I've asked the Service providers such as –
Students, Business class, Employees, Others

Questions their answers and interpretation:

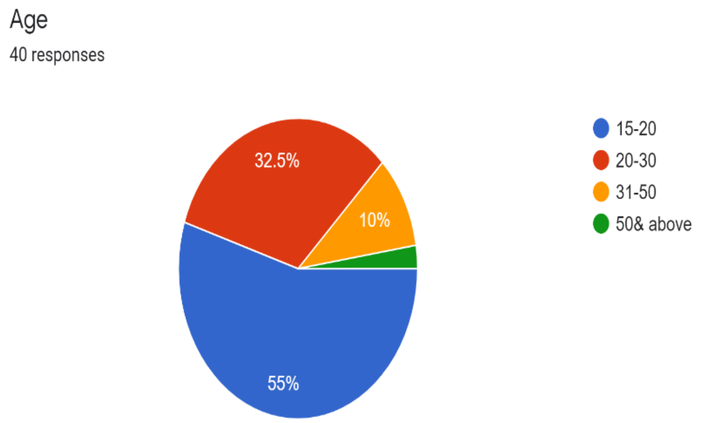
1. **Gender: -**



Interpretation:

The above pie chart and table depict the percentage of the respondent of the study that 37.5% of total respondent are male and 62.5% female. This data is extracted from 40 samples received.

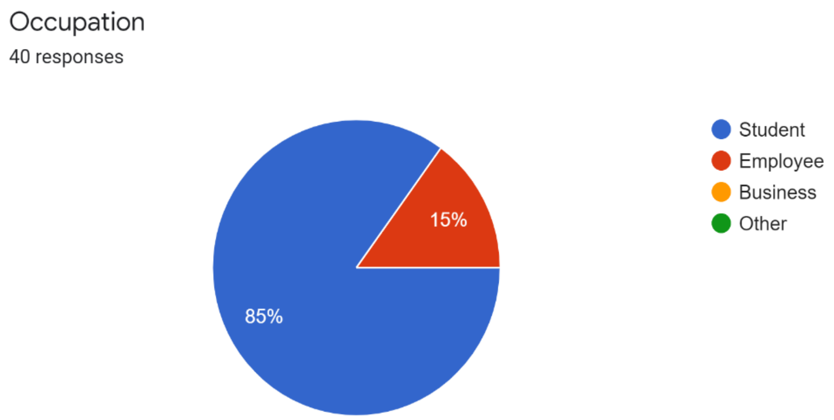
2. Age



Interpretation:

The above pie chart and table depict the percentage of the respondent of the study that age group of the respondent. In this pie chart the age of below of 20 is 55%, the age group of 20-30 is 32.5%, the age group of 31-50 is 10%, the age group of 50 & above is 2.5%. This is data extracted from 40 samples received.

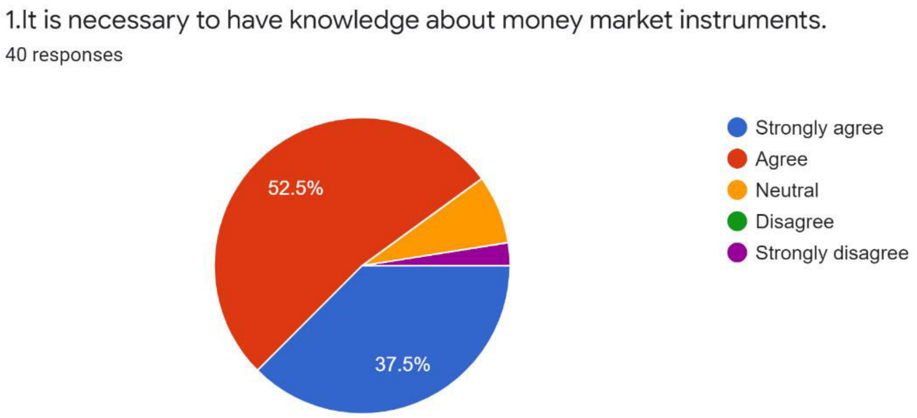
3. Occupation



Interpretation:

The above pie chart and table depict the percentage of the respondent of the occupation of the respondent. In this pie chart the respondent student is 85%, respondent employee is 15%, respondent. This data is extracted from 40 samples received.

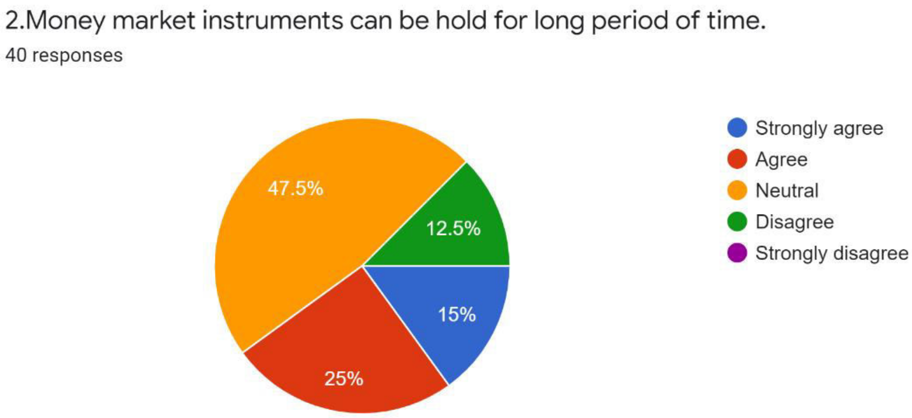
4. **It is necessary to have knowledge about money market instruments?**



Interpretation: -

The above pie chart and table depict the percentage of the respondent of the study the table is related to know, it is necessary to have knowledge about money market instruments. The response shows that 37.5 % of the people is strongly agree with the statement as well as 52.5% of the people is agree with the statement. 7.5% of the people has a neutral opinion with this statement. 2.5% of the people are strongly disagree with this statement and This data is extracted from 40 samples received.

5. **Money market instruments can be hold for long period of time.**



Interpretation: -

The above pie chart and table depict the percentage of the respondent of the study of the table is related to know that Money Market instruments can be hold for long period of time. The response shows that 15% of the people is strongly agree with the statement as well as 25% of the people is agree with the statement.47.5% of the people has a neutral opinion and 12.5% of the people are disagreeing with this statement. This data is extracted from 40 samples received.

CHP: 5

Conclusion:

To sum up, the money market is a key component of the financial system as it is the fulcrum of monetary operations conducted by the central bank in its pursuit of monetary policy objectives. It is a market for short-term funds with maturity ranging from overnight to one year and includes financial instruments that are deemed to be close substitutes of money. The money market performs three broad functions.

Firstly, it provides an equilibrating mechanism for demand and supply of short-term funds. Secondly, it enables borrowers and lenders of short-term funds to fulfil their borrowing and investment requirements at an efficient market clearing price. Three, it provides an avenue for central bank intervention in influencing both quantum and cost of liquidity in the financial system, thereby transmitting monetary policy impulses to the real economy.

The objective of monetary management by the central bank is to align money market rates with the key policy rate. As excessive money market volatility could deliver confusing signals about the stance of monetary policy, it is critical to ensure orderly market behavior, from the point of view of both monetary and financial stability. Thus, efficient functioning of the money market is important for the effectiveness of monetary policy.

Though the LAF helped to develop interest rate as an instrument of monetary transmission, two major weaknesses came to the fore. First was the lack of a single policy rate, as the operating policy rate alternated between repo during deficit liquidity situation and reverse repo rate during surplus liquidity condition. Second was the lack of a firm corridor, as the effective overnight interest rates dipped (rose) below (above) the reverse repo (repo) rate in extreme surplus (deficit) conditions.

Suggestions:

Few suggestions relevant to the development of money market in India are enumerated below:

1. There should be a mechanism to make the call range bound which may reduce uncertainty and provide confidence to the bankers for lending/borrowing. In the context, it is emphasized that Repos and Reverse Repos conducted by RBI has the potential to set the floor and ceiling in the call money market.
2. Besides, Repo mechanism, call money market, needs to be supplemented by Open Market Operation (OMO). OMO can influence interest rate as well as volumes in the market.
3. Non-bank segment should be brought under the same regulation on par with the banks early as possible so that level playing field is created.
4. Transparency should be ensured in money market transaction. There should be screen based trading with two-way quotes for each money market instruments.
5. The lock-in period of CDs and CPs should be completely removed in a phase manner.
6. Retailing of government papers should be encouraged. The primary dealers can play a role in this context.
7. Currently FIls are allowed in government dated securities in primary as well as secondary market. More FIl participation could be encouraged.
8. Money Market Mutual Funds should be setup by various banks and institutions. This would increase the retail participation in the market.

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