

## **Quarterly Prediction of Reserve Money Multiplier and Money Stock in India**

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### **1. INTRODUCTION**

For a closer forecasting and control of money stock, movements in the reserve money and in the reserve money multiplier both need to be watched. Between the two, the variations in the former are decidedly the more dominant. But those in the latter are not negligible at all. Besides, minor variations in the multiplier cause large absolute changes in the money stock. The present study concentrates on examining the variations in the multiplier, assuming that the variations in the reserve money will be examined separately.

One view of the money supply process, particularly relevant for monetary systems with a dominant and effective role for open market operations, visualises that the variations in the reserve money itself can be quite closely controlled with the help of appropriate open market operations and, therefore, focuses attention on predicting variations in the reserve money multiplier, which are thought of as being largely determined by the behaviour of the public and the banks. Reserve money is considered to be largely policy-determined, and, in particular, largely within the control of the monetary authority i.e. the central bank of the country, which can take the necessary counteraction required to correct for (i) the autonomous influences on the reserve money resulting from budgetary surplus or deficit and balance of payments surplus or deficit and (ii) the autonomous changes in the reserve money multiplier arising out of shifts in asset preferences of the public and the banks.

In the Indian context, perhaps the quantity of reserve money is not quite within the control of the Reserve Bank thanks to the relatively large size of budgetary deficits in comparison with the annual increases in the holdings of government securities which the banks and the public can accept without a considerable rise in the interest rates. If this view is correct, an examination of the stability, the predictability and the possible degree of control of the reserve money multiplier would enable us to indicate the extent of the monetary control possible given the constraints of large budgetary deficits and the policy to restrain increases in the level of interest rates in the country.