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## Money Supply Influencing on Economic Growth-wide Phenomena of AEC Open Region

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### Abstract

This paper aims to study a big picture on relationship between money supply and economic growth-wide phenomena of AEC open region including Thailand, Indonesia, Singapore, Malaysia, Philippines, Vietnam, Lao PDR and Cambodia. The macro variables comprise of economic growth-wide phenomena or GDP growth rates and money growth-wide phenomena or money supply, consisting of money (M1) and demand deposits (DD) of selected countries in ASEAN were tested by using secondary data, covering during nineteen yearly period from 1995 to 2013. Panel unit root and estimation models by using panel ARDL of Pooled Mean Group Estimator (PMGE) were conducted to observe the long run relationship and the short run relationship as a speed of adjustment to the long run equilibrium. The result showed that narrow money (M1), demand deposits (DD), and GDP growth rates were stationary with I(0) and I(1) levels. Also, the result outputs shown coefficients of estimation indicated that money supply were associated with economic growth-wide phenomena of AEC open region in long run including a speed of adjustment to long term equilibrium.

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**Keyword:** Money supply, Economic growth, Panel ARDL, Pooled Mean Group Estimator, Demand Deposits and AEC.

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### 1. Introduction

The problem of emerging ASEAN Economic Cooperation and the 'economic liberalizing tendency' discussed in modern articles by many scholars and such various economic subject matters as research practice, advanced computer technologies. Monetary policy is the manipulation of the money supply with the objective of affecting macroeconomic outcomes such as GDP growth, inflation, unemployment, and exchange rates.

Monetary policy is conducted by the central bank of many countries. So, the monetary policy is an important tool for maintaining economic stability and promoting economic growth as well. However, monetarists believe that an increase in the money supply will not affect to output or gross domestic product (GDP), but money supply will affect mainly on inflation. In past decade, the global financial crisis was observed. It was only found when the crisis, turned into a global economic recession that affected developed and developing countries. Even though, the economic in many developing countries consequences of these indirect effects were as severe as the direct effects were on developed countries. Nevertheless, the crisis has had various other impacts. The worldwide recession led to a reduction of global GDP growth by -0.35 percentage in 2009, which lower than was 4.85 percentage in 2007 and was 2.21 percent in 2008 respectively (International Monetary Fund (IMF), 2014). Even though, the global financial did not originate in ASEAN, and, indeed, the direct incapacitate to the financial sector in ASEAN has been much less than in other western regions. However, ASEAN economies have been hit hard by the sharp slowdown in demand in many developed economies and elsewhere. Some countries in ASEAN such as Singapore, Indonesia, Thailand, and Malaysia faced to large decline in exports. The result of crisis has influenced on the declined GDP growth of countries in ASEAN. Especially, the GDP growth rate of Singapore, Thailand, and Malaysia have shown large decline. In 2009, the GDP growth rate in Thailand went down to -2.3 percentage, Malaysia -1.5 percentage, and Singapore -0.6 percentage, which lower than in 2007 were 5.0 percentage, 6.3 percentage and 9.1 percentage respectively. As a result, growth rate of the gross domestic product in ASEAN on year on year has dropped sharply from 6.7 percentage in 2007 to 1.8 percentage in 2009 (ASEAN Statistic, 2013). In order to resolve the issues and stimulate economic growth, the government of AEC countries passed an alternative policy in every way. One of the measures of government spending based on monetary policy to stimulate the economy have been adopted, together with fiscal policy. The central bank's monetary policy (expansionary money policy) to stimulate economic growth by lowering interest rates in order to increase the supply of money into the economy. Due to monetary policy plays as an important role in boosting the economic growth of many countries provided money as exogenously determined within the economy. So, changes in the quantitative money lead to change on aggregate demand sequence of AEC economic events of the number of sectors is still a very researchable subject, and for the third millennia there is the main arrangement modern. Our own academic dates represent an attempt to employ the economic research arrangement originally worked out. Therefore, to understand the role of monetary policy in the macroeconomics evens more. The research question of this study is to determine how the relationship between money supply and economic growth could be found. From the previous study there are a lot of studies examined the role of monetary policy on Gross Domestic Product (GDP) such as Oganmuyiwn & Ekone (2010), Zapodeamu & Cociuba (2010), Liang (2011), Ihan & Anjum (2013), and El.seoud (2014). There are none of the previous study examined about the relationship between money supply and economic growth in context of AEC. Research results on the real benefits of an integrated AEC were provided as a way to ensure more reasonable economic development based on research useful information supporting public sectors and private sectors.

## **2. Objective of research**

The objective of this study is to examine the relationship between money supply and economic growth of countries of selected AEC countries. In this study employed an empirical analysis based on panel ARDL approach by utilizing Pooled Mean Group Estimator (PMG) to estimate the long run relationship between money supply and economic growth during the period of 1995 to 2013. The variables were used on this study including of economic growth and money supply, which consist of money supply (M1) and demand deposits (DD) of eight selected AEC countries, namely Thailand, Indonesia, Singapore, Malaysia, Philippines, Vietnam, Lao PDR, and Cambodia.

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