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ADJUSTMENTS IN THE MONEY SUPPLY AND THEIR INFLUENCE ON POST- PANDEMIC ECONOMIC GROWTH

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Abstract. The COVID-19 pandemic caused an unprecedented global economic shock, prompting central banks to adopt expansionary monetary policies to stabilize economies and support recovery. This study reviews the theoretical and empirical literature on the relationship between money supply and economic growth, with a particular focus on the post-pandemic period. Drawing on Monetarist, Keynesian, and New Keynesian perspectives, the paper synthesizes evidence from normal economic conditions and major crisis episodes, including the Great Depression, the 2008 financial crisis, and the COVID-19 recession. The findings suggest that monetary expansion played a vital role in mitigating economic contraction and fostering short-term recovery. However, its effectiveness declined as inflationary pressures intensified due to supply-side constraints, labor market frictions, and policy coordination challenges. The study emphasizes the need for continued empirical research to guide balanced monetary strategies that sustain economic growth while maintaining price stability in the post-pandemic era.

Keywords: COVID-19, money supply, economic growth, economic crises, monetary policy.

Introduction

The COVID-19 pandemic triggered an extraordinary global economic crisis, prompting central banks to deploy expansive monetary policies to counteract widespread disruptions. As economies entered the post-pandemic period, the adjustments in money supply emerged as a pivotal factor influencing economic growth trajectories. This section reviews the existing literature on the relationship between money supply and economic growth, focusing on empirical evidence and its relevance to the post-pandemic context. It begins with an overview of theoretical perspectives, followed by a synthesis of empirical studies from both normal and crisis periods, and concludes with an analysis of emerging research on the COVID-19 aftermath. By identifying key findings and gaps, this section provides a foundation for understanding monetary policy's role in shaping post-pandemic recovery.

The interplay between money supply and economic growth is a cornerstone of economic theory. Monetarists, notably Friedman (1968), assert that money supply growth primarily drives nominal GDP in the long run, with excessive increases risking inflation and insufficient growth leading to stagnation. Conversely, Keynesian theory emphasizes monetary policy's role in stimulating aggregate demand through lower interest rates, thereby

fostering investment and consumption (Keynes, 1936). The New Keynesian framework integrates these views, highlighting the significance of monetary interventions while accounting for price and wage stickiness (Woodford, 2003). These theories frame the expectation that money supply adjustments can bolster economic growth, though their efficacy depends on economic conditions, inflationary pressures, and the velocity of money—particularly in the unique post-pandemic environment.

Empirical research on money supply and economic growth under normal conditions reveals a complex relationship. McCandless and Weber (1995) identified a robust positive correlation between M2 money supply growth and real GDP growth across 110 countries over 30 years, suggesting a direct link. However, De Gregorio (1993) found that in developing economies, excessive money supply growth often fueled inflation without proportional real output gains, underscoring the role of institutional and structural factors.

During economic crises, monetary policy's importance intensifies. Bernanke et al. (1999) demonstrated that monetary contraction during the Great Depression deepened the downturn, emphasizing the need for liquidity provision. Similarly, studies of the 2008 financial crisis, such as Gertler and Karadi (2015), showed that unconventional measures like quantitative easing (QE) mitigated financial instability and supported recovery when interest rates hit the zero lower bound. These findings suggest that expansive monetary policies can stabilize economies during downturns, though their long-term effects on growth and inflation remain debated—an issue of particular relevance to the post-pandemic period.

The COVID-19 pandemic posed unprecedented challenges, with simultaneous supply and demand shocks necessitating aggressive monetary responses. Central banks, including the Federal Reserve and the European Central Bank, slashed interest rates and expanded money supply through large-scale asset purchases. Early evidence indicates these measures were effective in averting deeper recessions. For instance, Gopinath (2020) noted that enhanced liquidity supported credit markets, contributing to a 33.1% annualized GDP rebound in the United States in Q3 2020 following a severe contraction (Bullard, 2020). However, as recovery progressed, inflationary pressures surfaced, complicating the growth outlook. Blanchard and Pisani-Ferry (2022) cautioned that prolonged money supply expansion could erode long-term growth if supply-side constraints persisted.

The post-pandemic period introduced distinctive factors—supply chain disruptions, labor market shifts, and evolving consumer behavior—that shaped the money supply-growth nexus. Cascaldi-Garcia et al. (2023) found that economies with resilient supply chains benefited more from monetary expansions, exhibiting stronger GDP growth. In contrast, regions with labor market frictions saw diminishing returns as inflation rose. The International Monetary Fund (IMF, 2022) further highlighted the interplay between monetary and fiscal policies, noting that in countries like the United States, substantial fiscal stimulus amplified inflationary pressures when paired with monetary expansion. Mehar (2023) observed that in emerging markets, money supply increases spurred infrastructure investment and growth, though outcomes varied by exchange rate flexibility and economic structure.

The literature reveals that money supply adjustments significantly influence economic growth, with effects varying by context. In the post-pandemic period, expansionary policies were instrumental in stabilizing economies and driving initial recovery, aligning with theoretical predictions of monetary stimulus. However, their effectiveness waned as inflation emerged, reflecting supply-side constraints and policy coordination challenges. While studies like those of the IMF (2022) and Cascaldi-Garcia et al. (2023) provide early insights, research

remains nascent. Key gaps include the long-term impacts of pandemic-era policies, cross-country variations, and the role of emerging factors like digital currencies. Addressing these will enhance our understanding of monetary policy's role in post-crisis recovery.

In conclusion, adjustments in the money supply were a critical lever for economic growth following the COVID-19 pandemic, yet their success hinged on a delicate balance between stimulating demand and managing inflation. As central banks navigate this terrain, continued empirical analysis will be essential to refine policy strategies and address the evolving global economic landscape.

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