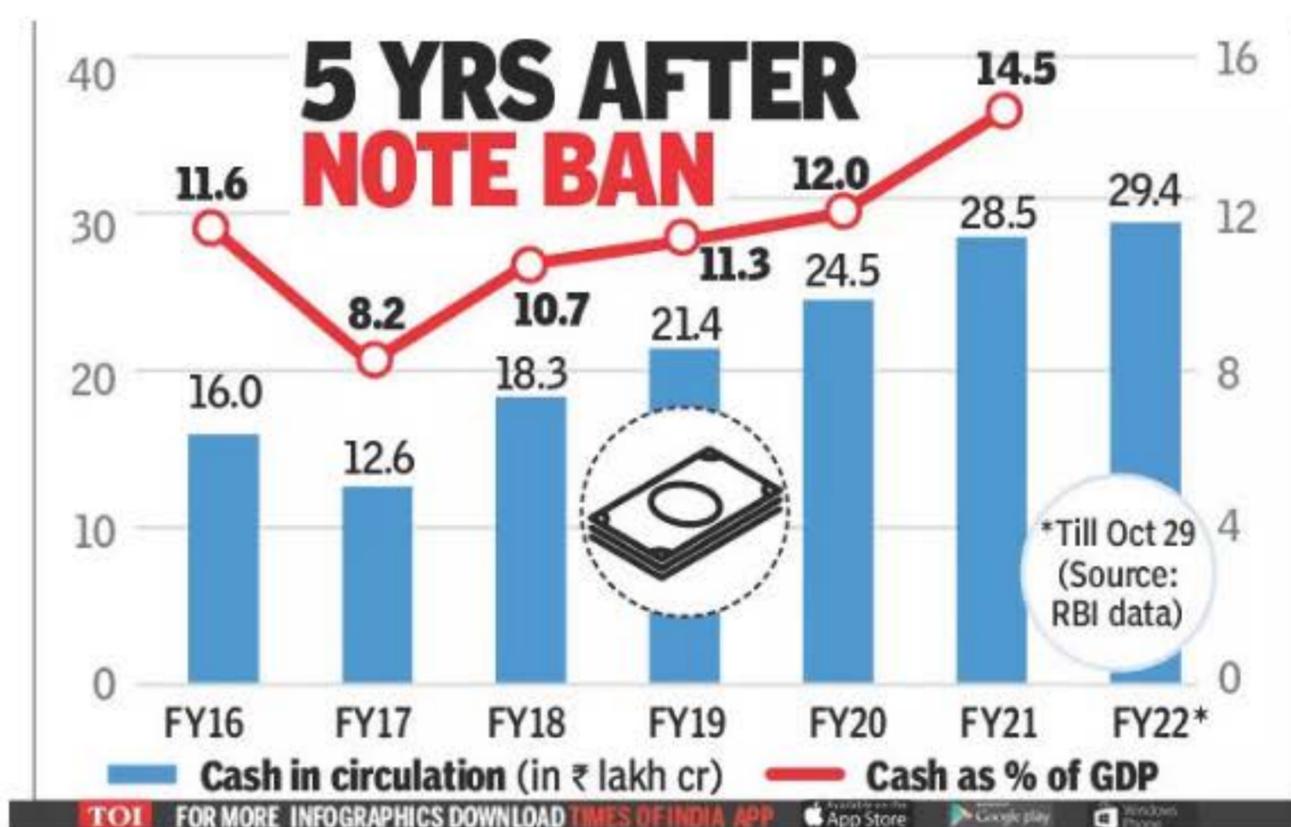


Five years after note ban, cash in use now at record 14.5% of GDP

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MUMBAI: The ratio of currency in circulation as a proportion of GDP touched a new high of 14.5% for fiscal 2020-21. The surge came as the pandemic increased the demand for cash and shrunk the GDP. At the same time, the surge in every form of digital payments continues on the fifth anniversary of demonetisation — whether it is Unified Payments Interface (UPI), credit and debit cards or FASTag — demonstrating that the shift to digital as well as cash intensity are not mutually exclusive.



The post-pandemic increase in currency in circulation has been a global phenomenon, described as a 'dash to cash' under extreme uncertainty. This has been experienced by the US, Spain, Italy, Germany, France, Brazil, Russia and Turkey.

Meanwhile, digital payments are nearly three times what they were in FY18. The Reserve Bank of India's digital payments index, which has 2018 as the base year at 100, has risen to 270. This index also captures the spread of digital, taking into account growth in the payments infrastructure.

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Of the four key objectives of demonetisation, India appears to have done well on three. There has been a rise in digital transactions. Besides this, there has also been a drop in fake currencies. Counterfeit notes detected continued to fall from 310,000 in FY19 to 290,000 in FY20 and 200,000 in FY21. There are also indications that the economy is getting more formalised.

According to SBI group chief economist Soumya Kanti Ghosh, there are indicators that the informal economy has shrunk to 20% of GDP from 40% a few years ago. This is comparable to Europe and much better than Latin American countries where the size of the informal economy is estimated at 34%.