

LOW VELOCITY OF CASH CIRCULATION IN LARGE STATES HINTS AT SLUGGISH ECONOMY: REPORT

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While the currency in circulation has surpassed what it was in the pre-demonetisation days, it is still short of what it should have been and the lower velocity of circulation in larger States points to sluggish economic activity, says a report by the State Bank of India.

Currency in circulation has gone up to Rs. 20.6 lakh crore as on February 1. It was Rs. 17.97 lakh crore a week before 86% of the currency was rendered invalid on November 9, 2016. "Our current estimates suggest that CIC [currency in circulation] is still short of trend by at least Rs. 1.5 lakh crore. Thus, any argument of cash coming back aggressively into the system and financing informal activities is not entirely correct," said the report authored by Soumya Kanti Ghosh, Group Chief Economic Adviser, SBI.

It estimates bank notes in circulation by March 2019 ought to have been at Rs. 22.45 lakh crore, but given the present trend of growth, it is expected to reach only Rs. 20.9 lakh crore by then. It further said with income velocity of money having shown a 'sharp plunge', it possibly implies that currency of higher denomination (Rs. 2,000) is not getting adequately circulated in the economy. "We are in a state of paradox as higher CIC cannot be taken as a proxy of economic activity as is being claimed," it said.

It added that in larger States like Maharashtra, U.P., and Karnataka, income velocity is far lesser than the national average, while in States like Chhattisgarh, M.P., A.P. and J&K, the velocity is much higher than the average. "A declining income velocity of money clearly suggests that a pick-up in economic activity remains elusive. Rural economy still remains depressed, with latest inflation numbers suggesting any meaningful pick-up in food inflation is still at a distance," it added.

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