

## CASH IN CIRCULATION FELL POST NOTE BAN: FM

Relevant for: Indian Economy | Topic: Issues relating to Growth & Development - Banking, NPAs and RBI

Notes in circulation have been growing at an average annual growth rate of 14.51% since October 2014. Sushil Kumar Verma

Demonetisation, coupled with increased digital transactions and the reduced cash usage in the informal economy, led to a reduction in currency in circulation by Rs. 3.4 lakh crore, according to Finance Minister Nirmala Sitharaman.

### 'Significantly lower'

Replying to a question in the Rajya Sabha, Ms. Sitharaman said that the level of currency in circulation as of May 31, 2019, was significantly lower than what it would have been if demonetisation had not happened.

According to the data provided, the value of notes in circulation on November 4, 2016, (four days before demonetisation was announced) stood at Rs. 17.74 lakh crore, which has now increased to Rs. 21.71 lakh crore as of May 31, 2019.

However, Ms. Sitharaman said that the notes in circulation had been growing at an average annual growth rate of 14.51% since October 2014.

"At this rate, notes in circulation would have increased to Rs. 25,122.53 billion (Rs. 25.12 lakh crore) as on May 31, 2019," Ms. Sitharaman said in her reply. "As actual notes in circulation on May 31, 2019 are only Rs. 21,713.85 billion [Rs. 21.71 lakh crore], demonetisation, followed by digitalisation and reduction of cash use in informal economy, has succeeded in reducing the notes in circulation by as much as Rs. 3,408.68 billion (Rs. 3.4 lakh crore)."

Ms. Sitharaman went on to cite Reserve Bank of India data to show that the number of counterfeit bank notes detected decreased from 762,072 pieces in 2016-17, to 522,783 in 2017-18 and 317,389 pieces in 2018-19 and hence "demonetisation resulted in curbing of the counterfeit currency".

However, she did not mention whether this reduction in detection of fake currency was due to their incidences coming down or their sophistication surpassing the RBI's ability to detect.

"A significant growth has been observed in digital transactions in the country post demonetisation," Ms. Sitharaman added. "Growth of digital transactions in terms of value has increased to Rs. 188.07 lakh crore in September 2018 from Rs. 112.27 lakh crore in November 2016. Digital transactions in terms of volume have increased to 241.88 crore in September 2018 from 91.83 crore."

The Minister also said that demonetisation led to a "significant positive impact on most theatres of violence" in the country since illegally held cash formed a major chunk of terrorfunding, and that the note ban rendered the cash held with terrorists worthless.

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