3. Nine Years After Demonetisation - Economy

Currency with the public has more than doubled since the demonetisation in 2016 was announced by the government. On November 8, 2016, the Government of India announced the demonetisation of all existing ₹500 and ₹1,000 notes, which together represented about 86% of total currency in circulation.

Stated Objectives - Eliminate black money and unaccounted wealth. Curb counterfeit currency and terror financing. Promote digital payments and push India towards a less-cash economy. Enhance formalisation of economic transactions.

Immediate Impact - Sharp liquidity shortage and temporary disruption in economic activity. Short-term GDP contraction, particularly affecting the informal and MSME sectors. Boost in the use of digital payment modes and financial inclusion initiatives such as Jan Dhan–Aadhaar–Mobile (JAM) trinity.

Currency with Public and Circulation Trends

Definition - Currency with the public = Total Currency in Circulation (CIC) – Cash with banks. CIC refers to all currency notes and coins issued by the Reserve Bank of India (RBI) that are in actual use for transactions among the public and businesses.

Post-Demonetisation Trends - Despite efforts toward a less-cash economy, public currency holdings have remained high. However, India's nominal GDP growth (6%+ annually) expanded the economic base, leading to a decline in the CIC-to-GDP ratio below pre-demonetisation levels.

Interpretation - A rise in absolute CIC doesn't automatically mean rising cash dependence—it may reflect overall economic expansion. The CIC-to-GDP ratio gives a more realistic measure of cash intensity in the economy.

Does Rise in Currency Reflect the Real Picture?

Key Ratios

2016 – 17 **-** 8.7% (post-demonetisation low).

2020 – 2021 - 14.5% (Covid-induced rise).

2025 - 11.11% (decline due to digital adoption).

Interpretation - A high CIC/GDP ratio → heavy reliance on cash. A lower ratio → increased digital and formal financial activity. India's decline from 14.5% (2020–21) to 11.11% (2025) indicates structural progress in payment digitalisation.

Macroeconomic Impact - Improved monetary policy transmission, as more money moves through formal banking channels. Better inflation management, since RBI can monitor liquidity more effectively in a digitised ecosystem.

International Comparison of CIC-to-GDP Ratio

Country/Region	CIC-to-GDP Ratio (%)	Remarks
India	11.11	High due to informal sector and cash culture
Japan	9–11	High, but reflects savings preference, not informality
Eurozone	8–10	Advanced, digitalised system
China	9.5	Rapidly digitised through platforms like Alipay, WeChat Pay
Russia	8.3	Higher banking integration
United States	7.96	Highly digitalised, low cash dependency

India's ratio, though improving, remains higher than global peers due to -

1. A large informal economy (over 40% of GDP).
2. Cultural preference for cash transactions.
3. Lower card and POS usage, especially in rural areas.
4. Gradual but steady adoption of digital modes post-2016.

India's Money Supply Dynamics - From Demonetisation to Digitisation

Demonetisation Shock (2016) - Triggered a short-term demand collapse. Severe cash crunch hit MSMEs, agriculture, and informal labour markets. GDP growth dipped below 6%, but recovered in subsequent years.

Shift Toward Digitisation - Post-2016 saw a surge in electronic transactions, notably through Unified Payments Interface (UPI). By 2025, UPI transactions exceed ₹20 lakh crore per month, with deep penetration into Tier-2 and Tier-3 towns.

Macro Trend - Currency-to-GDP ratio fell from 12% (2016) to 10.5% (2024). India remains more cash-intensive than advanced economies but is rapidly formalising.

RBI's Measures of Money Supply

Introduced - April 1977.

Purpose - To classify money by liquidity and monitor the supply of money in the economy.

Aggregate	Components	Liquidity Level	Description
M1 (Narrow Money)	Currency with public + Demand deposits + Other deposits with RBI	Highest	Most liquid form of money
M2	M1 + Post Office savings deposits	High	Includes semi-liquid savings
M3 (Broad Money)	M1 + Time deposits with banks	Moderate	Key monetary policy indicator
M4	M3 + All Post Office deposits (time + demand)	Lowest	Broadest definition of money supply

Policy Relevance of M3

1. Adopted following the Chakravarty Committee (1982–85) recommendations.
2. Reflects aggregate liquidity influencing spending, savings, and credit creation.
3. Used as the principal measure for monetary targeting and policy formulation.
4. Offers stability and reliability for medium-term analysis.

Digital Economy in India - Transformation after 2016

Post-Demonetisation Digital Surge -

1. India's digital economy has expanded rapidly due to UPI, Aadhaar, Jan Dhan accounts, and BharatNet connectivity.
2. Contributed 11.74% to GDP in 2022–23, expected to reach 13.42% by 2024–25 (ICRIER, 2024).
3. India now ranks 3rd globally in digitalisation of the economy.

Key Drivers of Growth -

1. **Unified Payments Interface (UPI) -** Seamless instant transfers with minimal cost.
2. **Digital India Mission (2015) -** Pushed for universal internet, e-governance, and paperless services.
3. **Aadhaar Ecosystem -** Enabled identity-linked financial inclusion.
4. **FinTech Innovations -** Payment banks, e-wallets, and neobanks transforming consumer access.
5. **Government Platforms -** e-RUPI, DigiLocker, BHIM, and GEM enhance transparency and convenience.

Projected Future (by 2030) - India's digital economy may form nearly 20% of total GDP, outpacing traditional sectors like manufacturing and agriculture. Expected to generate millions of new tech-based jobs in AI, cybersecurity, fintech, and e-commerce.

Broader Impacts and Lessons from Demonetisation

Economic Formalisation - Surge in taxpayer base and GST compliance post-2016. Greater digital footprint of small businesses.

Behavioural Change - Consumers and merchants more comfortable with digital payments. Increased financial inclusion through Jan Dhan and digital banking.

Policy Takeaways - Demonetisation's short-term pain led to long-term digital gains. However, the informal sector's vulnerability exposed the need for gradual transitions in monetary reforms. Emphasises the importance of digital infrastructure and financial literacy for sustainable digitisation.

Conclusion

Mixed Legacy - Demonetisation remains a controversial policy, with mixed outcomes—limited success in black money elimination but significant structural progress in digital adoption and financial formalisation.

The Digital Dividend - India's journey from cash dominance to digital dynamism reflects resilience and adaptability. With continued policy support, financial innovation, and inclusion, India is poised to become a global leader in digital finance and economic formalisation by 2030.

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