



Currency-to-GDP Ratio

The **currency in circulation** as on 29 March, 2019 **stood at ₹21.40 trillion**, which is up by 60.2% from ₹13.35 trillion as of **March 2017 (the fiscal year in which demonetisation took place)**.

- The Currency-to-GDP ratio as of March 2019 was 11.23% which is **highest in three years**.
 - The currency-to-GDP ratio as of March 2017 and March 2018 was 8.69% and 10.70%, respectively.
 - Hence, the **currency-to-GDP ratio has grown** between March 2017 and March 2019.
- The currency in circulation has **increased by 1.5 percentage point** with **every one percentage increase in GDP**, despite the increased efforts of authorities to push for a less cash economy.
- Despite emergence of various alternatives to cash transactions, public still have a **strong affiliation for currency** as evident from the currency to GDP ratio.
- **37.3% of the bank notes** in circulation are of the **denomination of ₹2,000** and **42.9% are of ₹500 denomination**. The higher **denomination notes encourages hoarding**.
- Technically, the fundamental determinants of currency demand growth are rate of **growth in GDP, inflation rate, interest rate, and above all the increased usage of non-cash payment instruments**. One important aspect in this context is the **Direct Benefit Transfers (DBT)**.
 - In recent past, there has been substantial amount of cash transfers in the form of **PMAY-G (₹43,375 crore), MGNREGS (₹43,287 crore), PAHAL (LPG subsidies) (₹34,128 crore) — totalling up to ₹1,89,266 crore**. These cash transfers contributed in part to a **sharp increase in currency transactions**.

Importance

- The ratio of currency in circulation to Gross Domestic Product (GDP) takes into **account the size of the Indian economy**.
 - As any economy grows, the total amount of currency being used in it **also grows in absolute terms**.
 - Hence, it is important to take the size of the economy into account.
- Considering the presence of a **huge informal sector in the Indian economy**, a higher currency-to-GDP ratio suggests that **economic transactions in the informal sector is picking up**.
 - Although it's still not back to the pre-demonetization levels. This is clearly good news for the Indian economy.

Currency & Corruption

- While people may take bribes in the form of cash, it does not mean that they hold on to that cash in the form of wealth. The cash is typically used to **buy real estate and gold. E.g.:**
 - The **ratio of currency to GDP of Japan in 2017 was 20.44%**, yet it is less corrupt than India. Whereas, for **Nigeria it was 1.85% in 2016, which is a lot more corrupt than India**.

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