Syllabus subtopic: Indian Economy and issues relating to Planning, Mobilization of Resources, Growth, Development and Employment.

Prelims and Mains focus: about the RBI study and its key findings

News: A Reserve Bank of India (RBI) study on the progress of digitisation from cash to electronic was recently released.

Key findings of the study

- Cash still rules, but it is increasingly seen as a way to store value as an economic asset rather than to make payments.

- Although cash is deeply embedded in the payment systems in India, planned efforts post-demonetisation have shown a marked shift from cash to digital payments. Over the past five years, the demand for high value denominated currency has outpaced low value denominated currency, which may indicate that “cash is increasingly used as a store of value and less for making payments.

- Both cash and non-cash payment instruments fulfil unique needs, and as long as these needs do not change, both types of payment instruments are required to meet the full spectrum of user’s needs.

- India’s growing use of retail digital payments, along with the radical reconstruction of its cash economy, indicates a shift in its relationship with cash. This is evidenced by the steep growth observed in the retail digital payments. Increasing acceptance and convenience of digital payments vis-à-vis cash is also reflected in decrease in average value per digital payment transaction.

- Many merchants, especially in rural areas, remain unable or unwilling to accept digital transactions due to network connectivity issues and a reluctance to pay charges for what are often low-value transactions.
Cash is still dominant

- It is assumed that having high currency in circulation (CIC) relative to GDP indicates that cash is highly preferred as a payment instrument. Based on this assumption, India continues to have a strong bias for cash payments.

- Demonetisation and an active growth in GDP brought down the CIC as a percentage of GDP to 8.70 per cent in 2016-17. This increased to 10.70 per cent in 2017-18 and to 11.2 per cent in 2018-19 which, however, is less than the pre-demonetisation level of 12.1 per cent in 2015-16. The rate of increase is lower indicating a perceptible shift away from cash.

- The notes in circulation (NIC), i.e. CIC minus coins in circulation, increased at an average rate of 14 per cent between October 2014 and October 2016. Assuming the same growth rate, NIC would have been Rs 26,04,953 crore in October 2019. However, it was Rs 22,31,090 crore, indicating that digitisation and reduction in cash usage helped reduce NIC by over Rs 3.5 lakh crore.

Conclusion

Overall, digital payments in the country have witnessed a compounded growth of 61 per cent and 19 per cent in terms of volume and value, respectively, over the past 5 years, demonstrating a steep shift towards digital payments. Within the digital payments, retail electronic payments comprising credit transfers (RTGS, NEFT, IMPS and UPI) and direct debits (ECS and NACH) showed rapid growth at 65 per cent and 42 per cent in terms of volume and value, respectively. Stored value cash issued in the form of wallets and prepaid cards showed an increased adoption, with a growth of 96 per cent and 78 per cent in terms of volume and value, respectively.