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Mystery surge in cash with public hurts banks

By [Mayur Shetty](#), TNN | Updated: Apr 02, 2016, 11.36 AM IST

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MUMBAI: A steep surge in the amount of currency in circulation has baffled bankers and economists as this preference for **cash** among the public is slowing down deposit growth and hurting banks. According to data released by the Reserve Bank of India, cash with the public grew by 48% in the last fiscal till March 18, adding over Rs 2 lakh crore to the currency in circulation.

The unusual rise in cash with the public has prompted State Bank of India chairman Arundhati Bhattacharya to call upon the central bank to examine the reasons for the increase. Bhattacharya raised the issue amid banks facing issues of systemic liquidity due to high currencyholdings(bothintheform of cash and jewellery) as well as the rise in government cash balances with the RBI.

According to SBI chief economist Soumya Kanti Ghosh, if people are withdrawing money to spend, it should reflect in higher economic activity, but numbers do not reflect this. "The manufacturing sector credit growth has completely collapsed to a little over 5%. The only sectors seeing growth are power and iron & steel, which is extremely distressing," he said.

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High-value denomination notes have been going out of currency chests of banks to the hinterland, but not returning. This is despite a surge in card payments as well as a jump in bank accounts due to the Jan-Dhan Yojana. The last time when cash with the public grew at over 40% was in 2011. But that was in the midst of a fiscal stimulus and inflation was raging at 11%, prompting people to spend more.

According to Madan Sabnavis, chief economist, Care, gold demand has risen because of low interest rates, and since a large part of the transactions in the yellow metal takes place in cash, there has been an increase in currency with public.

"Although inflation has come down, inflation expectation among public has not come down even as returns on deposits have declined. The reduction in small savings rate has made it easier for banks to bring down deposit rates. If you look at monetary policy as well as the recent action on small savings, they appear to be geared toward enhancing credit rather than encouraging savings," he said.

Another reason for the surge in cash as on March 18 could be a string of bank holidays that followed, according to Sujan Hajra, co-head, research at Anand Rathi Securities. But even if one were to look at currency growth as on February, the increase was as high as 38%. "With inflation low and with low return on most assets, the opportunity cost for holding cash and loss of opportunity due to moving to cash is low. The know-your-customer norms for investments in real estate has increased, which could be reducing the opportunity there. Most jewellers have also been on strike for long and they are one of the major sources for cash deposits into the **banking** system and this could also be a reason," said Hajra.

Bank deposits continue to grow at a sluggish pace. As on March 18, 2016, the year-on-year growth in deposits stood at 9.9%.

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