

RBI DECISION SHOWING RESULTS

Currency in Circulation Down ₹36,000 cr Week After ₹2k Note Move

Cash flowing back has led to liquidity improving in the system: Economists

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Mumbai: Currency in circulation declined by ₹36,492 crore a week after the Reserve Bank of India requested people to deposit or exchange the recently withdrawn ₹2,000 notes, most probably reflecting the value of notes returned to banks.

Latest RBI data shows that the outstanding currency in circulation (CIC) as on May 26 was at ₹34.4 lakh crore, registering a weekly fall of ₹36,492 crore. A decline in CIC reflects less leakage of funds from the banking system.

"The reduction in the reserve money and CIC is a clear indication that around ₹36,000 crore is the amount which has been exchanged and has been subsequently withdrawn from the system," said Madan Sabnavis, chief economist at Bank of Baroda.

On May 19, the RBI said it had decided to withdraw ₹2,000 notes from circulation although the notes would continue to be legal tender. The central bank said individuals could deposit or exchange the notes with banks from May 23 to September 30.

"The fact that ₹2,000 notes have been given to the banks, which would have passed them on to the RBI, means that much has been taken out," Sabnavis said. "I think this can be a good indicator going forward about how much money is actually coming back into the system. It's a large amount given that it's three days," he said.

Of the ₹3.6 lakh crore worth of ₹2,000 notes in circulation, analysts had broadly predicted around ₹50,000 crore to ₹1 lakh crore worth of funds flowing to the banking system.

Given the trends in the RBI data, the quantum of money entering the banking system is on the higher side of that range



now, analysts said.

"I suspect that the fall in CIC is because of the withdrawal of the ₹2,000 notes because it seems that between two large banks, they have already got about ₹32,000 crore as deposits, so the numbers match up," said Abheek Barua, chief economist at HDFC Bank.

"I expect a part of this is because of that," he added. "It's certainly a good run-rate because if you look at the stock of ₹2,000 notes it is at ₹3.6 lakh crore."

On Monday, State Bank of India (SBI) chairman Dinesh Kumar

Khara said the country's largest bank had received ₹14,000 crore worth of ₹2,000 notes so far and that ₹3,000 crore have been exchanged. According to India Ratings & Research director Soumyajit Niyo-

gi, a recent improvement in liquidity conditions in the banking system also reflected the impact of the ₹2,000 notes flowing back.

Over the past three days, surplus liquidity in the banking system has topped the ₹1 lakh-crore mark, bringing down money market rates and, therefore, borrowing costs in the economy.

"About ₹2.5-3 lakh crore of banking sector liquidity leaks out as currency in circulation each year. As such, markets may anticipate some comfort on the liquidity front," HSBC economists Pranjul Bhandari and Aayushi Chaudhary had written in a report after the RBI announced withdrawal of ₹2,000 notes.

Analysts have predicted ₹50,000 cr to ₹1 lakh cr funds from the ₹2,000 note flowing back to the banking system