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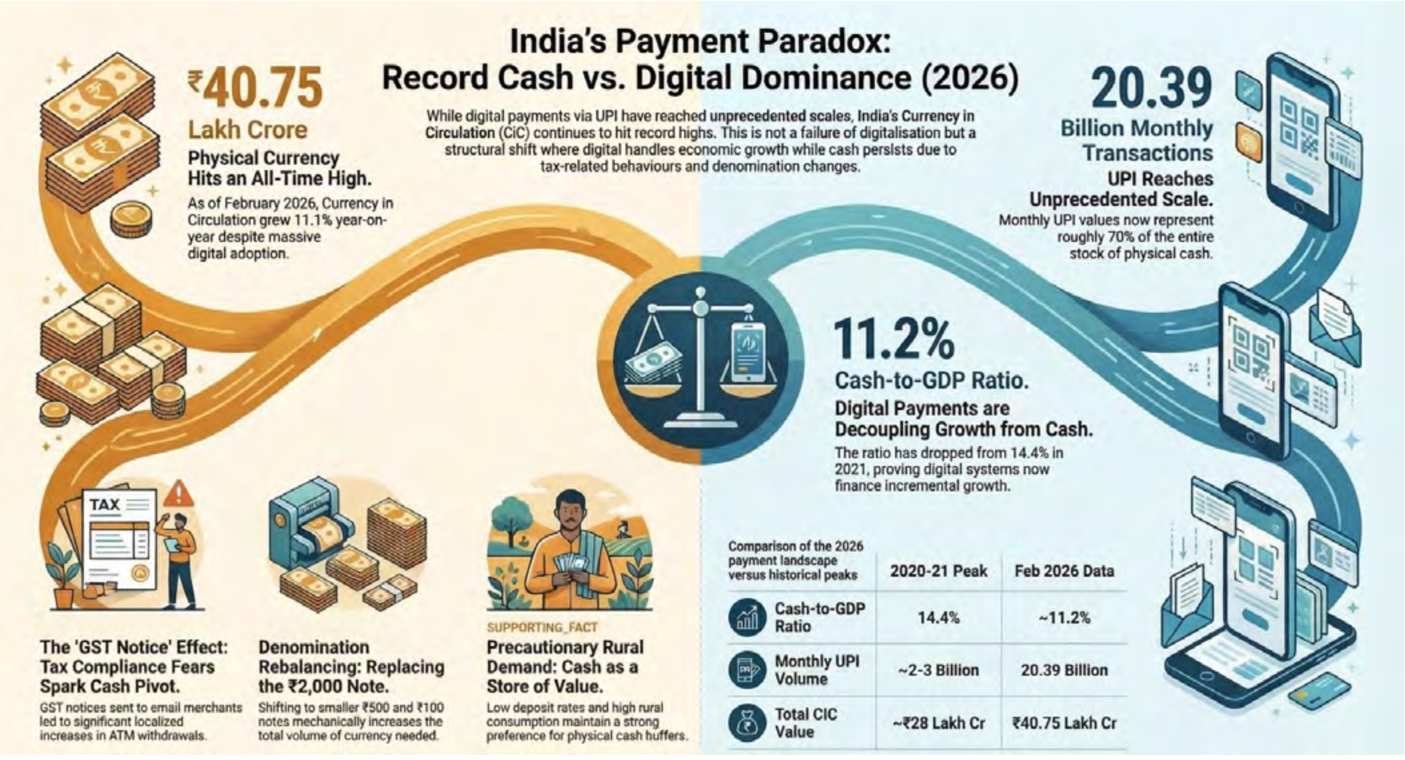

REPORT: CURRENCY IN CIRCULATION REACHES RECORD HIGHS IN INDIA DESPITE EXPLOSIVE UPI GROWTH – ANALYSIS AND IMPLICATIONS

EXECUTIVE SUMMARY

India's Currency in Circulation (CiC) – the total physical notes and coins with the public and banks – has hit successive record highs, reaching approximately ₹40 lakh crore by end-January 2026 (up 11.1% YoY from the previous year) and further climbing to ₹40.75 lakh crore by 28 February 2026. Currency with the Public (CWP, ~97.6% of CiC) stands at ~₹39 lakh crore.

This surge occurs even as UPI – India's flagship digital payments system – has scaled new records: January 2026 saw ~2,170 crore transactions worth ₹28.33 lakh crore (roughly 70% of the entire CiC stock in one month alone), while February 2026 recorded 20.39 billion transactions worth ₹26.84 lakh crore.

The apparent paradox is resolved by a key structural shift: the cash-to-GDP ratio has steadily declined to ~11–11.2% in FY 2025-26 (from a pandemic peak of 14.4% in FY 2020-21). Incremental GDP growth is now increasingly financed by digital payments (UPI in particular), while absolute CiC continues to rise in line with nominal economic expansion, seasonal demand, and specific behavioural factors.

State Bank of India (SBI) Research's money-demand econometric model confirms this: GDP has a positive but statistically insignificant coefficient on currency demand, while UPI transaction value has a significant negative coefficient – proving UPI substitutes cash at the margin without eliminating overall cash demand.

KEY DATA TRENDS (RBI-SOURCED)

- CiC Growth: +11.1% YoY in Jan 2026 (vs +5.3% previous year). Year-to-date (Apr 2025–Jan 2026) incremental rise: +₹2.76 lakh crore (3.11× the prior year's +₹88,517 crore).
- ATM Withdrawals: Monthly withdrawals are exceeding the long-term average of ~₹2.5 lakh crore, with clear uptrends in Karnataka, Tamil Nadu, and West Bengal.
- UPI Scale: 2025 full-year total ~228 billion transactions worth ~₹300 lakh crore; average daily volume crossed 698–728 million in peak months. Small-ticket P2M transactions (< ₹500) constitute 86% of UPI volume – exactly the segment where low-denomination cash was traditionally dominant.

WHY CIC IS RISING DESPITE UPI: FOUR PRIMARY DRIVERS (SBI RESEARCH & EMPIRICAL ANALYSIS)

RBI's fortnightly data and independent econometric work isolate the following factors:

1. Tax Compliance Shock and Behavioural Shift (GST Notices): In July 2025, Karnataka's Commercial Taxes Department issued ~18,000 GST notices to small traders/vendors whose UPI transactions exceeded the ₹40 lakh registration threshold (2022–2025). This created a perceived disincentive. Using an intensity-based Difference-in-Differences (DiD) framework on RBI ATM withdrawal data across five states, SBI found:
    - Karnataka treatment districts (with high pre-notice ATM activity) saw an additional ₹37 crore per month in withdrawals post-July 2025 (statistically significant at the 5–10% level).
    - Spillover effects via news channels were significant in West Bengal (+₹16.76 crore/month) and Kerala. This pushed marginal transactions back into cash, especially among small merchants.
2. Precautionary & Consumption-Driven Cash Holding (Rural + Low Interest Rates): Low bank deposit rates, combined with strong rural consumption and sluggish deposit growth (only 10.6% YoY as of end-Jan 2026), have raised households' preference for physical cash as a store of value and buffer. The augmented money-demand function shows that demand is negatively correlated with interest rates. Rural areas, where UPI penetration is still catching up, continue to hold higher cash balances.
3. Household Recycling of Precious Metals: Surging gold and silver prices prompted households to sell holdings and convert proceeds into cash for consumption. This mirrors patterns seen in earlier RBI studies (e.g., 2013). Recent GST and income-tax rationalisations further boosted household spending, amplifying the cash injection. Gold imports as % of GDP are at multi-year highs.
4. Denomination Rebalancing: Post-₹2,000 Note Withdrawal RBI's 2023 withdrawal of ₹2,000 notes (98.42% returned by early 2026; only ₹5,609 crore remains in circulation) led to replacement with smaller denominations. By March 2025, the share of ₹500 notes had risen sharply; RBI's April 2025 directive mandated that banks load more ₹100/₹200 notes into ATMs (target: 96% of ATMs by March 2026). This mechanically increases the total number of notes (and thus CiC value) for the same purchasing power. UPI's dominance in <₹500 tickets limits full substitution of these low-denomination notes.

Implications for Government Treasury & RBI Currency Management

- Liquidity & Printing Operations: RBI's Department of Currency Management must continue high-volume note printing and distribution (especially ₹500 and lower denominations) to meet legitimate demand. Currency chest operations remain critical; the March 31, 2026, deadline for FY closure will require coordinated chest-level accounting.
- Formalisation Dividend: The falling cash-to-GDP ratio signals deepening digital integration and formalisation. UPI is already capturing incremental economic activity, reducing the velocity burden on physical cash.
- Risks: Over-reliance on cash in rural/informal segments, and any further tax compliance shocks, could slow digital adoption. However, absolute CiC growth is sustainable as long as it tracks nominal GDP (~10–11% range).
- No Conflict with Digital Push: UPI and cash are complements for the foreseeable future – UPI excels in scalability and traceability; cash retains primacy for privacy, small-value rural transactions, and precautionary needs.

OUTLOOK & RECOMMENDATIONS

- Short-term (FY 2026-27): CiC is likely to remain elevated (potentially crossing ₹42–43 lakh crore by March 2027), but the cash-to-GDP ratio should stabilise or decline further as UPI volumes continue to grow 25–30% YoY.
- Recommendations (from Treasury perspective):

1. Sustain RBI's policy of never disincentivising UPI (as explicitly advised by SBI Research).
2. Accelerate denomination-wise and state-wise data disclosure (quarterly/half-yearly) to enable better behavioural analysis.
3. Enhance rural UPI infrastructure and merchant onboarding to gradually reduce precautionary cash demand.
4. Monitor ATM withdrawal trends and GST compliance feedback loops to pre-empt future behavioural shifts.

In summary, record CiC does not indicate a reversal of digitalisation; it reflects a maturing economy where physical currency grows with overall activity while digital rails finance the incremental expansion. RBI's balanced management of both ensures seamless liquidity support to the real economy.

References: RBI fortnightly data (via CEIC and press releases), NPCI UPI statistics, SBI Research Ecowrap (Feb 2026), and cross-verified economic analyses. Data current as of mid-March 2026