ReWISE

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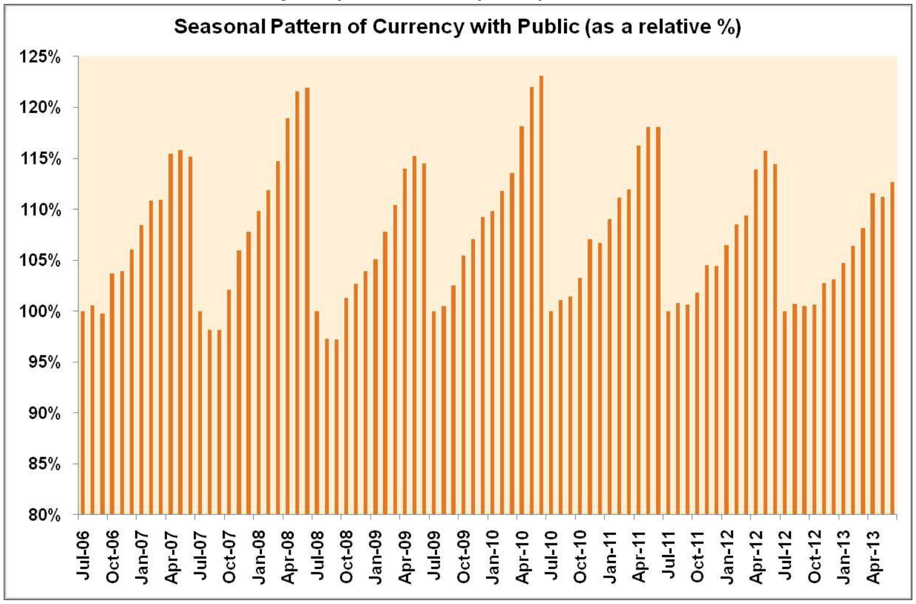
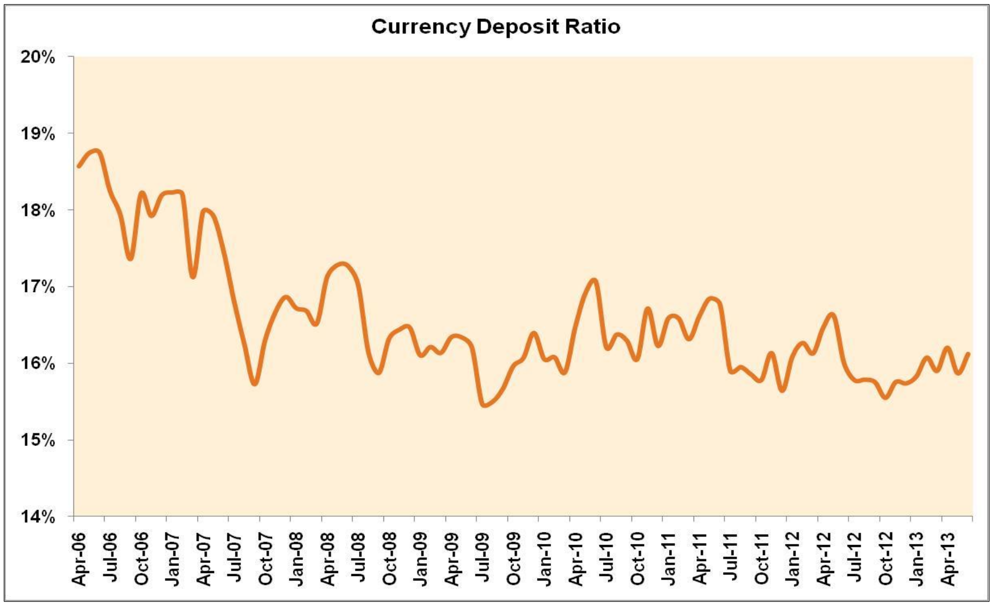
Currency Leakage

What is currency leakage?

- Currency with public refers to cash held with public rather than being deposited in bank.
- Outflow of money from the banking system is known as currency leakage and represents currency with public.
- Currency leakage impacts the money supply[1] in the economy and creates liquidity issues for the banks.
- Currency leakage results into lesser deposits in the bank thereby reducing the amount bank can lend out resulting in lower money supply.
- Demand for currency with public generally follows a seasonal pattern.
- During April to June and October to March, we generally observe increase in currency with public.
- Currency with public can increase on account of advance tax, festivals etc.
- A ratio to understand currency leakage is currency to deposit ratio[2].
- Currency to deposit ratio tells how much public is holding as cash and not re depositing in banks. Higher ratio means more cash is held by public.
- Charts below shows the seasonal pattern of currency with public as a relative percent of July[3] month of the year as base and as currency deposit ratio (in %).

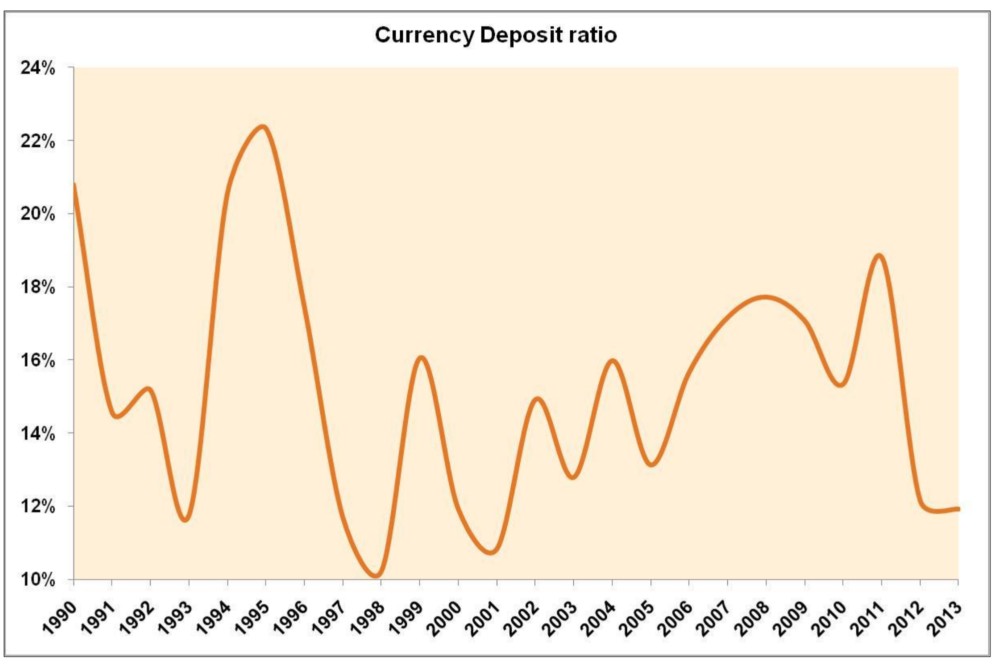


[1] Refer to ReWISE on Money Multiplier
[2] Currency –Deposit ratio = Currency with public ÷ Total deposits (Demand + Time deposits)
[3] July month taken as there is least currency leakage. Data till June 2013



Source: RBI

- From above two charts, we can observe that currency with public follow a seasonal pattern.
- In the first chart (as a relative %), we can see that currency with public increases from October to June and then reduces from July to September and again starts increasing from October depicting seasonal pattern.
- Similarly in the second chart (currency deposit ratio), we can observe the same pattern with increase in the ratio during October to June depicting increase in currency with pattern and a falling ratio between July and September depicting reduction in currency with public.
- On an average around 1.32%[4] of currency with public comes back in to the banking system.
- Over the few years currency deposit ratio has been declining as compared to a decade ago on account of the spreads in the banking system like electronic banking, credit cards etc. This can be observed in the chart below which shows annual currency deposit ratio from 1990 to 2013.



Source: RBI

[4] Average has been calculated by taking the monthly difference between maximum and minimum currency deposit ratio for the last 7 years

For any further clarification contact mahvash.ariyanfar@idfc.com