From Cash to Cashless: Assessing the Impact of Digital Payment Usage on Household Consumption Behaviour and Financial Decision-Making in India

Suchika Rathore

Research Scholar, PhD (Commerce), Nirwan University, Jaipur

Dr Neelu Lamba

Assistant professor, Business studies, Nirwan University, Jaipur

Abstract

India has moved from being one of the most cash-dependent large economies in the world to hosting the world's largest real-time retail payment system. In 2025–26 the Unified Payments Interface (UPI) processed 24,161.69 crore transactions worth about ₹314 lakh crore, roughly 66 crore payments every day. This paper asks a simple but important economic question: when the way households pay changes, does what they buy, how much they save, and how they borrow also change? Using official secondary data from the National Payments Corporation of India, the Reserve Bank of India, the Ministry of Statistics and Programme Implementation, and the World Bank's Global Findex 2025, the study builds a descriptive-analytical picture of the cash-to-cashless transition and reads it against established economic theory. Three findings stand out. First, payments have become dramatically smaller and more frequent: the average value of a UPI transaction fell about 29 per cent, from roughly ₹1,838 in 2020–21 to about ₹1,300 in 2025–26, even as volume grew at more than 100 per cent a year over eight years. Second, this granular, low-friction payment habit coincides with a visible shift in household balance sheets household debt rose from 36.7 per cent of GDP in 2021–22 to 45.5 per cent by September 2025, with non-housing consumption loans forming 58.4 per cent of household borrowing, while net financial saving has stayed below its pre-pandemic level. Third, the welfare effect is not uniform: causal evidence shows digital payments raise spending for ordinary consumers but raise saving for very poor households receiving transfers. The paper concludes that digital payments are best understood as a friction-removing technology whose consumption effect is genuinely ambiguous, and argues for digital financial literacy, in-app spending nudges, and stronger consumer protection alongside continued expansion.

Keywords: digital payments; Unified Payments Interface; household consumption; behavioural economics; India

Introduction

For most of its modern history, India ran on cash. The amount of currency in circulation, pre-demonetisation was close to 18 per cent of gross domestic product, as compared to around 3.5–8 per cent in the United States and the United Kingdom and about 87 per cent of all transactions in 2012 were done with notes and coins (Agarwal, Ghosh, Li, & Ruan, 2024). Then 10 years after - the whole situation is different. The Unified Payments Interface, launched by the National Payments Corporation of India (NPCI) in 2016 with 21 banks and 373 transactions in its first month, handled 24,161.69 crore transactions worth about ₹314 lakh crore in 2025–26 an almost 12,000-fold rise in volume in a decade (Press Information Bureau [PIB], 2026). Today, India is home to nearly 50% of the real-time payment volume.

This paper examines the implications of this change for the common households. The debate is not over the convenience of using digital payments, that fact is established. But the question is whether that changes economic behavior per se by altering how people pay. According to conventional theory of consumption, it shouldn't. A household's lifetime resource determines the amount on which it bases its spending in the life-cycle and permanent-income approach to money, and the physical appearance of money is unimportant (Friedman, 1957). If this is correct, the transformation of payments to the digital channel can be seen as little more than a reduction in transaction costs, leaving everyone a little better off.

Two other traditions state otherwise. The first is the tradition of transaction-costs in monetary economics, which takes the cost of acquiring and holding money to determine real behavior (Baumol 1952, Tobin 1956). The second is

behavioural economics which proposes that paying in cash is more painful than placing a digital payment in particular, and that this psychological difference affects the type of products people will buy (Prelec & Loewenstein, 1998; Soman, 2003). Both traditions foresee household consumption to be altered with the transition to cashless, but they diverge significantly in their views on whether it is a welfare gain or a welfare loss.

The process of transition was rapid, nationwide in scope, partly due to policy intervention and is recorded in good quality official statistics. The objectives of this paper are: (i) to describe the shift from cash to cashless using the available official data that has been verified; (ii) to outline the economic mechanisms that payment technology can have on consumption and saving and borrowing behaviours; (iii) to review the evidence from the Indian and international contexts on the size and direction of such effects; and (iv) to derive some policy conclusions on consumer protection and financial literacy. The rest of the paper is structured in the following way. Stylised facts are introduced in Section 2. In Section 3, the theoretical framework is developed. The literature is explored in Section 4. A brief description of data and method is given in Section 5. The results and discussion are presented in section 6. The policy implications, limitations and conclusions are discussed in sections 7 – 9.

The Cash-to-Cashless Transition in India: Stylised Facts

Policy and infrastructure

The payment transition in India is based on a planned public infrastructure building. The residents were provided with their digital identity based on Aadhaar and bank accounts via Pradhan Mantri Jan Dhan Yojana (that is offered since 2014) and they now have cheap mobile data to connect them. Open, interoperable and free to use, the rail was added on top when UPI launched in 2016. The introduction of the demonetisation of 2016 took out approximately 86 per cent of currency by value almost overnight, compelling a huge number of cash-only consumers to consider a digital alternative (Agarwal et al., 2024). The COVID-19 Pandemic provided a second impetus. Better yet, the government has continued to tweak usage patterns via policy: merchant discount rates on UPI were made zero, small value modes like UPI Lite were developed and credit lines were tied up with UPI. By March 2026, 703 banks were live on UPI (PIB, 2026).

Scale of adoption

Table 1 shows the growth of UPI across ten financial years. Volume grew at a compound annual rate of about 101 per cent between 2017–18 and 2025–26. In 2025–26 India recorded roughly 165 UPI transactions per person per year a level of payment frequency that no comparable economy has reached. **Table 1. Growth of UPI transactions in India, 2016–17 to 2025–26**

Financial year	Volume (crore)	Volume (billion)	Value (₹ lakh crore)	Average ticket size (₹)
2016–17	2	0.02	0.07	
2017–18	92	0.92	1.10	1,202
2018–19	535	5.35	8.77	1,639
2019–20	1,252	12.52	21.32	1,703
2020–21	2,233	22.33	41.04	1,838
2021–22	4,596	45.96	84.16	1,831
2022–23	8,371	83.71	139.15	1,662
2023–24	13,113	131.13	199.95	1,525
2024–25	18,587	185.87	260.56	1,402
2025–26	24,162	241.62	314.00	1,300

Note. Volume and value are as reported by NPCI and by the Ministry of Finance in replies to Parliament; the 2025–26 figures are from PIB (2026). Average ticket size is computed by the author as value divided by volume and is not reported

for 2016–17 because the base is negligible. Sources: PIB (2026); Ministry of Finance, as reported in press summaries of NPCI data.

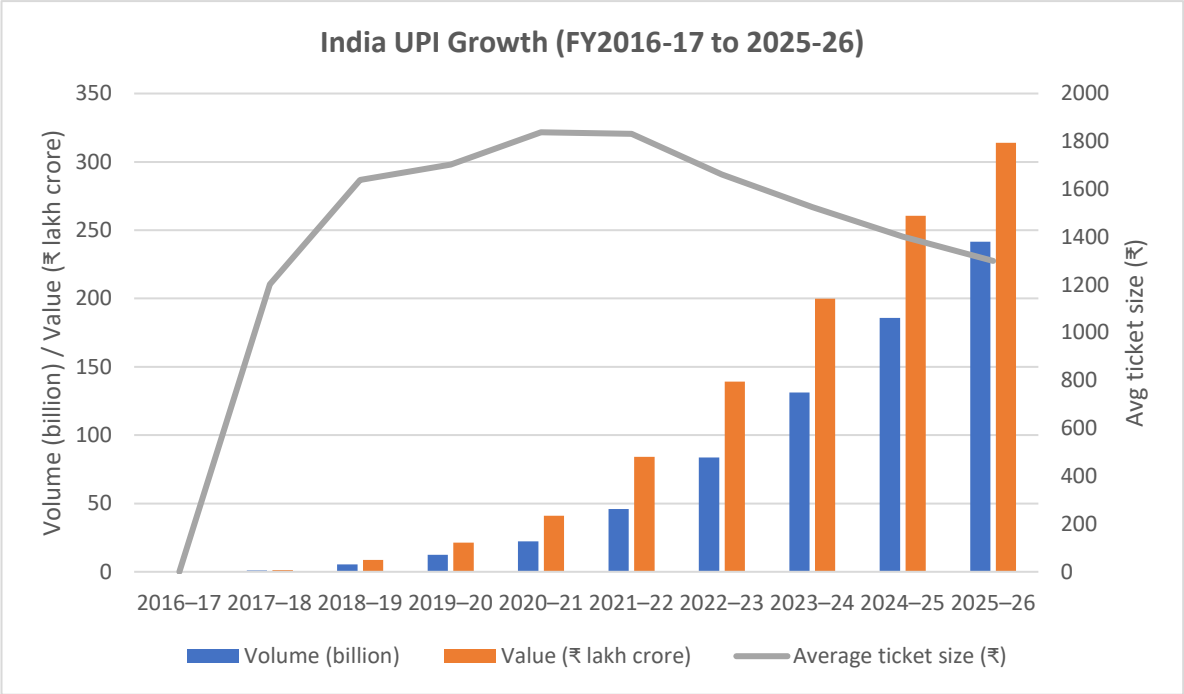


Figure 1. UPI transaction volume and average ticket size, 2016–17 to 2025–26. Author's construction from the data in Table 1.

Payments are getting smaller, not just more numerous

Table 1 provides the most interesting piece of economic data not so much the increase in volume but the decrease in the average payment. The average size of UPI transactions has been declining since 2020–21, dropping to ₹1,300 in 2025–26, representing a nominal decrease of approximately 29 per cent from the peak value in 2020–21. The data from the other end, industry sources, validate the above trend: Person-to-merchant payments now account for ~63 per cent of volume, QR acceptance points have grown to ~678 million, while the vast majority of transactions are in the lower end of the value segment. Specifically, UPI has ceased to be primarily a tool for remittances. It is now the common method of payment of Indian citizens with respect to tea, vegetables, recharging mobile phone, and purchasing bus tickets.

Cash has not disappeared

One could be tempted to say India's a cashless economy. The data do not indicate this. In calendar year 2024, digital modes saw a share of 99.7 per cent of transaction volume and 97.5 per cent of value, before that picked up to 99.8 per cent in volume and 97.7 per cent in value in the first half of 2025 (Reserve Bank of India [RBI], 2025b). Absolute growth of currency in circulation continues at 11.4 per cent in value during 2025–26 and India's banknotes in circulation number to around 176 billion, which is greater than that of USA and euro area together. What's changed is the ratio: cash's share of GDP dropped from around one-fourth (14.4 per cent) in 2020–21 to approximately one-tenth (11 per cent) in 2025–26. Cash is becoming more of a store of value than its role as a medium of exchange.

Access is not the same as usage

As per the recent Global Findex 2025 report by the World Bank, nearly 89 per cent have a financial account, with 88.7 per cent of Indians using bank accounts. But only approximately one in two Indian adults made or received a digital payment in the surveyed year (Demirgüç-Kunt, Klapper, Singer, & Ansar, 2025). The fact that these transactions are aggregated means that they give us a lot of information about an active minority and not much about the fact that there are in essence half of adults who are not in digital payment flows to begin with. Hence, one should read such statements such as "Indian households" only with that understanding based on UPI data only.

Table 2. Reserve Bank of India Digital Payments Index (base: March 2018 = 100)

Period	RBI-DPI	Period	RBI-DPI
March 2018 (base)	100.00	March 2022	349.30
March 2019	153.47	September 2022	377.46
September 2019	173.49	March 2023	395.57
March 2020	207.84	September 2023	418.77
September 2020	217.74	March 2024	445.50
March 2021	270.59	September 2024	465.33
September 2021	304.06	March 2025	493.22
		September 2025	516.76

Note. The RBI-DPI is a composite index of five weighted parameters: payment enablers (25%), demand-side infrastructure (10%), supply-side infrastructure (10%), payment performance (45%) and consumer centricity (5%). Source: RBI (2026a), Digital Payments Index for September 2025.

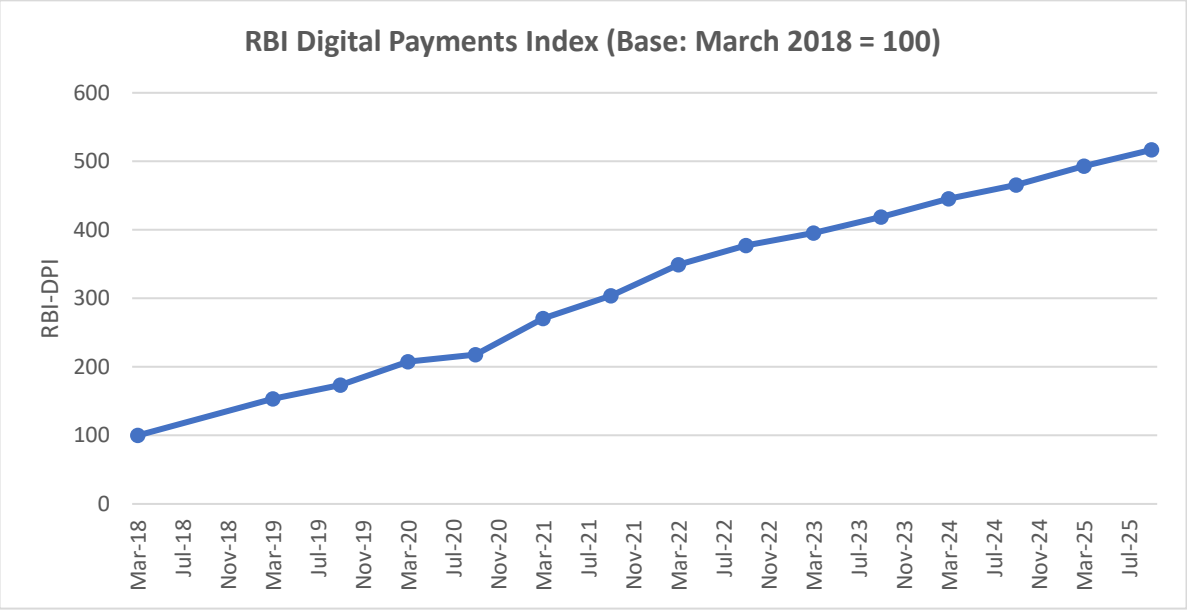


Figure 2. RBI Digital Payments Index, March 2018 to September 2025. Author's construction from RBI (2026a).

Theoretical Framework

The transaction-cost channel

The classical inventory-theoretic models of money demand treat cash like stock in a warehouse. A household must convert interest-bearing wealth into spendable cash, and each conversion costs time and effort. The optimal cash holding in the Baumol–Tobin model is $C^* = \sqrt{(2bT/i)}$, where b is the fixed cost of a conversion, T is total planned spending over the period and i is the interest forgone by holding cash (Baumol, 1952; Tobin, 1956). Digital payments push b towards zero. Two consequences follow. Households hold smaller precautionary cash balances, which is efficient. But they also stop facing a hard budget signal: with cash, running out of notes in your wallet physically stops a purchase, whereas a UPI app does not.

The consumption-smoothing channel

Under the permanent-income and life-cycle hypotheses, households set consumption according to expected lifetime resources rather than current cash-in-hand (Friedman, 1957). If markets were complete and information costless, the

payment instrument would be irrelevant. In practice many Indian households are liquidity-constrained, so anything that eases access to funds instant transfers between family members, instant settlement of wages, small digital loans allows consumption to respond to needs that were previously postponed. Here the digital shift is welfare-improving: it lets households smooth consumption across time and across their networks.

The behavioural channel

A third channel works through psychology rather than budgets. Prelec and Loewenstein (1998) argued that paying is intrinsically unpleasant, and that this "pain of paying" acts as a natural brake on spending. The strength of the brake depends on how visible and how closely coupled the payment is to the purchase. Cash is maximally visible: the notes leave your hand and the wallet gets thinner. Soman (2003) showed that less transparent payment forms lead to higher subsequent spending, and Raghubir and Srivastava (2008) showed that the more money is "decoupled" from the purchase, the more freely it is spent. Prelec and Simester (2001) found that people were willing to pay substantially more for the same item when paying by card rather than cash. Thaler's (1985) theory of mental accounting adds a further point: households mentally sort money into budgets, and a stream of tiny digital payments is far harder to post to those mental accounts than a single visible withdrawal.

These ideas combine into a simple decision rule. A household buys a marginal item when its perceived value v is at least as large as the total cost of acquiring it:

$$v \geq p + \tau + \psi$$

where p is the price, τ is the transaction cost of paying, and ψ is the psychological cost of parting with the money. Cash implies a high τ (you must carry notes, find change, visit an ATM) and a high ψ (the pain of paying). Digital payment lowers both simultaneously. The purchase threshold falls, and items that were previously marginal now get bought. Critically, the same observed increase in spending can be efficient (if it came from a fall in τ, a genuine deadweight loss removed) or inefficient (if it came from a fall in ψ, which was serving as a useful self-control device). This ambiguity is the central theoretical point of the paper.

Network externalities

Payment systems are two-sided markets: consumers adopt only if merchants accept, and merchants accept only if consumers adopt. This creates a coordination problem that can trap an economy in a low-adoption equilibrium. Crouzet, Gupta and Mezzanotti (2023) show that India's demonetisation acted as a large temporary shock that broke this trap, producing a persistent increase in electronic wallet adoption; their estimates suggest adoption would have been substantially lower without adoption complementarities. Higgins (2024) documents the same mechanism in Mexico, where a government debit-card rollout raised card adoption among other consumers by 21 per cent through the merchant side of the market.

These channels yield four testable propositions, which structure the discussion in Section 6:

H1: Digital payment adoption raises household consumption expenditure.

H2: The effect is concentrated in small-value, discretionary and non-food categories.

H3: Digital payment adoption is associated with lower net financial saving and higher consumption-oriented borrowing for the average household.

H4: Effects are heterogeneous for very poor and previously unbanked households, digitalisation may raise saving rather than spending.

Review of Literature

The most directly relevant causal study of this paper concerning India is Agarwal, Ghosh, Li and Ruan (2024), The Review of Financial Studies. Moreover, since demonetisation pushed various groups of consumers with differing amounts of cash dependence onto a platform of payments, the authors show that for every extra 10 per cent of prior cash dependence for consumers, the use of digital payment channels increased by 2.94 per cent and monthly spending grew by 2.38 per cent. There are two elements of this score that are important. First, demand did not simply shift to the new

supply, but spending continued to be high even though cash was abundant. Secondly, the authors exclude income shocks, credit supply, purchase substitution and price changes explaining the increase, assuming subdued endowment effects that is, behaviour as described in Section 3.3.

International evidence also goes in the right direction – with important nuance. In China, mobile payment use is associated with an increase in basic needs and developmental consumption, but with a decrease in hedonistic consumption, and these increases are the largest among the low and high earning households, and decrease with earnings. But in Mexico, Bachas, Gertler, Higgins and Seira (2021) obtained the opposite result for this group of beneficiaries: existing cash-transfer recipients maintained formal savings of approximately 2 per cent of annual income for two years, but at the expense of decreased current consumption. Informational cards lowered the expense of checking balances which helped produce trust in the bank. Hence, digitalisation can increase the spending when it makes buying more frictionless, but it can also increase saving when it makes burdening (monitoring) more frictionless.

In the special case of India, Perception, trust in the payment's infrastructure and previous experience of online fraud all play an important role, according to Shree, Pratap, Saroy and Dhal (2021) in the Journal of Banking and Financial Technology, who used survey data to demonstrate that these determine whether an individual makes a digital payment and depend on the payment purpose. Aggarwal, Malik, Mishra and Paul (2021) recorded the demand-side factors of both shifts to 'cashless payments' in various regions of India after demonetisation. At the macro level, the World Bank's Global Findex 2025 flags real-time payment systems like UPI and Pix as the best pathway to address the remaining unmet financial access need, but warns that there is a history of gaps between the availability of accounts and their active use (Demirgüç-Kunt et al., 2025).

A gap remains. The majority of Indian studies only go so far as the determinants of adoption, or to the self-reported adoption of change of spending, which is conducted on a small convenience sample. Limited work has been carried out to understand the connection between UPI payment and the three key financial outcomes of a household, namely their level of consumption, their saving, and their borrowing, based on the official national statistics of the mature UPI period of post-2022. This paper fills this gap descriptively.

Data and Methodology

It is a descriptive-analytic study which is purely secondary data for the period 2016-2025-26. Five sources are used. The payment volumes and payment values are derived from the statistics published by NPCI as per the Press Information Bureau (2026) and Ministry of Finance in response to Parliamentary queries. Digital Payments Index data comes from the Reserve Bank of India (RBI, 2026a), data on the composition of payment systems is derived from RBI's report on Trend and Progress (RBI, 2025b), currency and payment aggregates data is provided by RBI's Annual Report (RBI, 2026b), and data on household debt and retail credit is sourced from RBI's Financial Stability Report (RBI, 2026c). The Household Consumption Expenditure Survey (HCE) 2023–24 carried out by the National Statistical Office (Ministry of Statistics and Programme Implementation [MoSPI], 2024), is used to provide data on households' expenditure. Demand-side financial behaviour comes from the Global Findex 2025 (Demirgüç-Kunt et al., 2025). All sizes of causal magnitudes were taken from peer-reviewed studies and not estimated here. Three analytical operations are performed on these data. First, average ticket size is calculated as the ratio of a headline series which expresses transaction value annually to another headlined series that expresses transaction volume annually, as a behavioural measurement of the level of granularity in a payment. Second, compound annual growth rates calculated so that we can compare the rate of change across series. Thirdly, a basic bivariate relationship among the RBI-DPI and the ratio of household debt to GDP (DDG) is explored. This final exercise is based upon only a few annual observations and is based on two series of observations which both show a tendency to rise; it cannot be said to be as evidence of causation and is therefore reported simply as a descriptive correlation. The study's key weights have been those for inferential purposes with the official Indian aggregates as a basis, supplemented by published causal estimates based on quasi-experimental studies.

Results and Discussion

Payment behaviour has become granular

Table 1 and Figure 1 establish the study's first result. Between 2017–18 and 2025–26, UPI volume grew at a compound annual rate of about 101 per cent while value grew at about 103 per cent, but the average payment shrank steadily after 2020–21. A fall in average ticket size while total volume explodes has a specific behavioural interpretation: households are not merely shifting existing large payments onto a new rail; they are creating new, very small payment events that previously either happened in cash or did not happen at all. Each of those events is a purchase decision, and each is now made under lower τ and lower ψ. This is the mechanism through which a payments technology becomes a consumption technology.

The level of consumption (H1)

The causal estimated by Agarwal et al. (2024) is a 2.38 per cent increase in any consumer's per month spending for a ten-percentage point increase in their former reliance on cash, which confirmed H1. Being specific about the magnitude of this effect is desirable. It is meaningful on the economic level but not huge: it is not like digital payments are responsible for double Indian consumption. It suggests an upward nudging at the margin. The aggregate data is also in accord with aggregate growth. According to Household Consumption Expenditure Survey 2023-24, average monthly per capita consumption expenditure in rural India was ₹4,122 while it was ₹6,996 in urban India in 2023-24 compared to ₹3,773 and ₹6,459, respectively, in 2022-23, and ₹1,430 and ₹2,630, respectively, in 2011-12 (MoSPI, 2024). There was also a decrease in consumption inequality as evidenced by a drop in the Gini coefficient from 0.266 in rural places to 0.237 in one year, and in urban places from 0.314 to 0.284 in the same year. Such aggregates are not just about payments; all of these are clearly relevant, but they do illustrate that the digital transition has been associated with general, not repressive, consumption growth a shift in incomes is a shift in consumption.

The composition of consumption (H2)

The evidence is consistent with H2 including H1. Of the total household expenditure in rural and urban areas, increasing number of non-food items now occupy 52.96 per cent and 60.32 per cent, respectively, with conveyance and clothing being the top contributors (MoSPI, 2024). This is important because where the majority of the focus of small-ticket e-payments lies is in these 'discretionary and service' segments – transport fares, food delivery, recharges, subscriptions, quick commerce orders. The falling average size of a ticket reported in Sec. 6.1. and the increase in the share of non-food is two sides of the same coin in terms of household purchasing. Moreover, Agarwal et al. (2024) find that the boost to spending was attributable to purchasing more costly options in tightly delineated product categories, and that this buying behavior was not indicative of newly fulfilled needs, but instead promotion.

Saving and borrowing (H3)

Household balance-sheet data provide the most striking correlate of the payment transition. Table 3 summarises the position.

Table 3. Indian household debt and related indicators

Indicator	Value	Period	Source
Household debt (% of GDP)	36.7	2021–22	RBI FSR
Household debt (% of GDP)	37.6	2022–23	RBI FSR
Household debt (% of GDP)	≈39.0	2023–24	RBI FSR
Household debt (% of GDP)	41.3	March 2025	RBI (2025a)
Household debt (% of GDP)	45.5	September 2025	RBI (2026c)
Non-housing retail loans (% of household debt)	58.4	March 2026	RBI (2026c)

Indicator	Value	Period	Source
Housing loans (% of household debt)	26.3	March 2026	RBI (2026c)
Gross NPA, unsecured retail loans (%)	1.7	March 2026	RBI (2026c)
Gold loan growth (CAGR since March 2024, %)	42.4	2024–2026	RBI (2026c)
Bank credit growth (%)	14.5	2025–26	RBI (2026c)

Note. Figures for 2023–24 are approximate because the Reserve Bank has revised the household-debt series across report cycles. Sources: Reserve Bank of India, Financial Stability Report (various issues), as reported in December 2025 and June 2026.

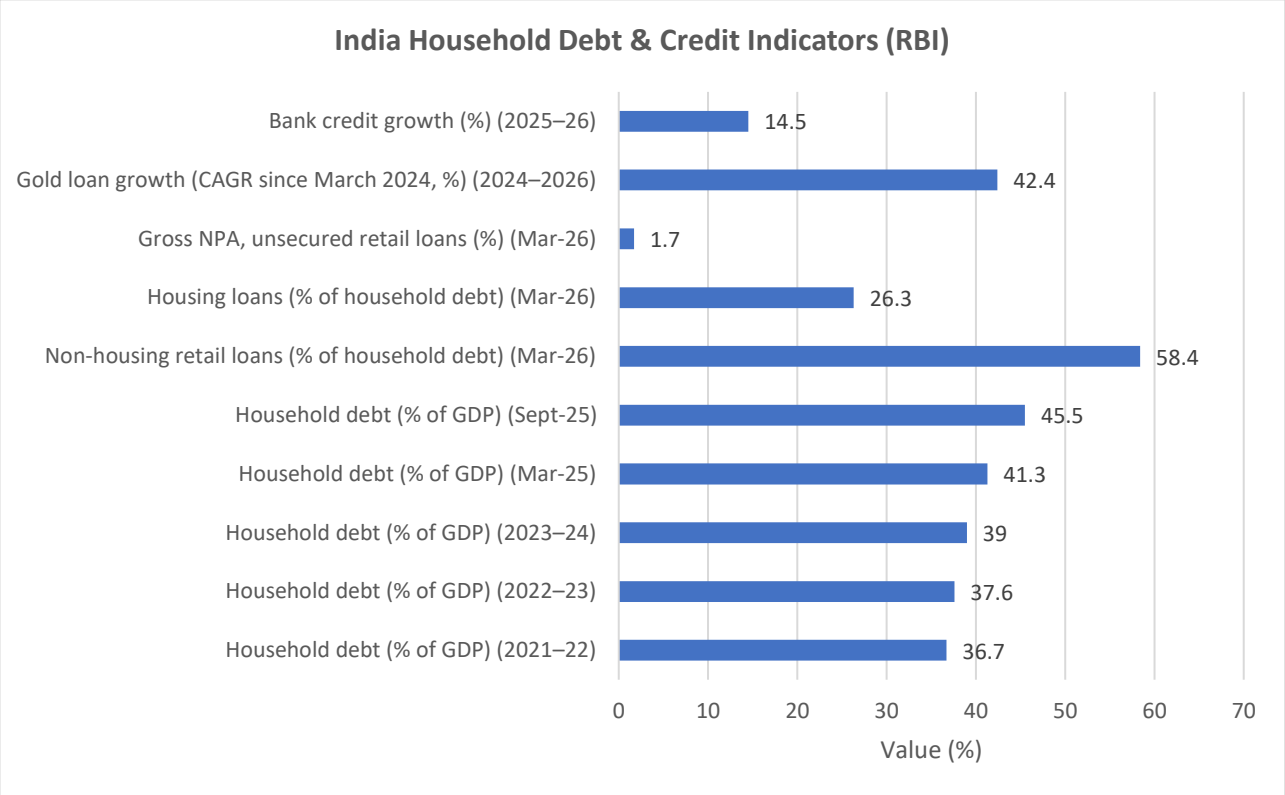


Figure 3. Household debt as a percentage of GDP. Author's construction from the data in Table 3.

Household debt rose from 36.7 per cent of GDP in 2021–22 to 45.5 per cent by September 2025 (RBI, 2026c). The composition is more important than level! In 2019–20, non-housing retail loans accounted for approximately half of total household borrowing, but this has now increased to 58.4 per cent, as this type of loan is primarily of a consumption nature rather than an asset-creating nature. Housing loans (collateralised and a durable asset) are only 26.3 per cent. Over 70 per cent of the fintech loan book is unsecured and more than half of small ticket-dollar digital loans are for borrowers under 35 years old. Conversely, on the liabilities side of the balance sheet, the level of net household financial saving dropped from around 7.2 per cent of GDP in 2021-22 to approximately 5 per cent in the next two years, though the amount has since recovered modestly to be around 6 per cent of GDP for 2024-25, albeit still lower than the 7-8 per cent seen in the late 2010s.

Co-movement of the variables is illustrated in a simple descriptive check. Correlation of the two series from 2021–22 to March 2025 is r = 0.98; a fitted slope suggests that for these four annual observations, the debt-to-GDP ratio of households would increase by around 3.2 percentage points for each 100-point increase in the RBI-DPI. This should be interpreted as a description of the two series over a short time frame or period, and not as an approximation of an effect. These both variables work in the same direction for many reasons rising incomes, credit deepening, deliberate policy expansion of retail lending and four observations cannot separate. The beauty of the calculation is that it lays bare the

joint action and determines how much the joint was 'loaded.' When used as a group, H3 is qualified for support. The behavioural channel forecasts in the right direction: towards an increase in consumption-oriented borrowing; towards a decline in net financial saving; and towards more instruments that facilitate spending. The payment system is in part to blame, but it is not the only culprit and the data don't tell us who is to blame.

Heterogeneity (H4)

There is strong support for H4, and this is the most policy relevant of the findings. In the Mexican sample of Bachas et al. (2021), very poor households that receive public transfers increased their savings by an additional 2 per cent of their annual income, leading to lower current consumption, with the provision of a digital instrument. But this group' said that what hurt them was not the pain of paying but the trouble of keeping track of and trusting a bank account. It's a well-established fact that eliminating a inhibitory friction creates a greater incentive to save -- and eliminating a purchasing friction creates a greater incentive to spend. India has both sets at the same time. Findex 2025 shows that the overall penetration rate of Indian adults accessing digital finance is only 48.5 per cent, indicating that a significant portion of the population remains at the "monitoring-friction" stage with 89 per cent holding an account while only 48.5 per cent make at least one digital payment (Demirgüç-Kunt et al., 2025). Thus, a single national approach to digital payments will impact these two groups in different ways.

Financial decision-making beyond spending

There are three additional impacts on decision-making that need to be discussed. Firstly, in one sense, budgeting is difficult and, in another sense, budgeting is easy. It no longer requires a mental calculation to keep track of hundreds of payments that actually occur every month: the mental-accounting problem described by Thaler (1985); and at the same time, a digital record of every transaction makes it possible to accurately tally all payments for the first time for households that never made a budget. It is a question of financial literacy, not technology, whether or not to use the record. Second, digital payment data is moving towards credit: cash-flow-based lending on UPI rails also gives credit to households with no formal credit record, which increases credit access but also has the potential to increase credit exposure risk. Third, fraud has increased in quantity. In 2024–25 the number of cases of reported UPI fraud has increased to approximately 6.32 lakh cases valued at approximately ₹485 crore. Trust is not a soft variable it is a determinant of Digital Payment adoption as Shree et al. (2021) demonstrate that some measurement can be seen in loss of subsequent Digital Payment usage due to experience of fraud.

Conclusion

The transition of cash to cashless is one of the most influential changes in payment behaviour ever witnessed by India. In this paper, we conceive of it as a way of removing two frictions in one shot: both the physical friction of releasing coins, and the psychological friction of making a payment. It's a no-brainer that removing the first is good. But removing the second is not; that friction was doing useful and quiet work as a self-control device. The Indian data are in line with that reading. This has resulted in payments increasing significantly in volume and dropping substantially in value, with the average value of UPI transacting dropping around 29 per cent from its peak in 2020-21 to around ₹1,300 in 2025-26. There has been an increase in consumption and a shift toward non-food, discretionary items. The ratio of household debt to GDP now stands at 45.5 per cent, with numbers of household-dwelling units holding consumption loans making up the bulk and the net financial saving by this sector falling short of the pre-pandemic level. Causal evidence for India reveals the spending effect of cash dependence, which increases by 2.38 per cent per 10 percentage points of cash dependence, due to the erosion of endowment effect and not as a result of income or credit shocks. That digital payments are bad is the wrong conclusion. They have increased access, reduced costs, formalized transactions and connected hundreds of millions of people who were not served previously, in fact, for the poorest families, the international evidence indicates savings on their part, rather than spending. The takeaway: a payments system this seamless creep can alter the way that households make financial choices, and thus public policy should adjust accordingly. The challenge of the coming decade will not be to delay transition, but rather to establish the financial education, behavioural controls and consumer safeguards to help households reap the benefits of transition, while maintaining control of their finances.

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