Estimating Interest Elasticity of Cash Demand from Survey Data

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Japan's cash-to-GDP ratio exceeds 20 percent, and a large share of outstanding currency is believed to be hoarded cash by households. With Japan exiting its prolonged period of near-zero interest rates and entering a phase of monetary tightening, higher deposit rates may induce households to reduce their cash holdings. Estimating the interest rate elasticity of cash demand is therefore a critical policy question for the central bank, as it helps assess the sensitivity of household cash demand to changes in deposit rates. Existing estimates of cash demand elasticities rely heavily on aggregate time-series data. However, in Japan, interest rates remained extremely low and stable for more than two decades, raising concerns about whether time-series–based elasticities provide reliable guidance for current policy needs. To address this limitation, this study conducts, for the first time in Japan, a large-scale household survey explicitly designed to estimate the interest elasticity of cash demand. We surveyed 20,000 consumers between May 23 and June 8, 2025, asking how much of their savings-oriented cash holdings they would reduce if deposit rates hypothetically rose by 1 percent or 3 percent. A total of 10,789 respondents completed the survey. The questionnaire also captured their current cash balances held for savings purposes, the deposit interest rates they believe they receive, and detailed household characteristics. Excluding the 40 percent of respondents who answered that they "do not know" how much they would reduce, we compute a weighted average interest elasticity of –11.1. This estimate is substantially smaller in magnitude than the elasticity of around –20 obtained from Japanese time-series data. Future work will examine the characteristics of respondents who answered "do not know," as well as those unaware of their own deposit rate, and assess how accounting for these groups may affect the aggregate elasticity estimate. The results highlight the importance of incorporating micro-level heterogeneity when evaluating the monetary transmission mechanism in Japan's post-zero-interest-rate environment.

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