

## Stonewalling by the RBI

The central bank needs to be more forthcoming on the 'remonetisation' roadmap than it has been so far

It's been 75 days since November 8, yet the Reserve Bank of India has failed to answer crucial questions on how it intends to 'remonetise' the economy. In its recent depositions before the Parliamentary Standing Committee on Finance and the Public Accounts Committee, the RBI merely said that ₹9.2 lakh crore worth of new currency had been injected into the banking system, in place of the ₹15.4 lakh crore of ₹500 and ₹1,000 crore notes that had been withdrawn from circulation. What is, however, not known is whether the new currency notes are meant to fully replace the old, given the push towards cashless transactions. Governor Urjit Patel has refused to tell us the value of the old notes that have returned to the system. The timeline for removal of withdrawal limits, and hence the return to a sort of new normal with cashless transactions playing a bigger role than pre-November 8, has not been indicated. As a result of this opacity, there's still an air of uncertainty, despite the fact that the cash shortage in banks and ATMs has eased. According to reports on the RBI's submission to the Standing Committee, the currency with the public as on January 13, at ₹9.7 lakh crore, is more than the new notes in circulation, an indication that the people are perhaps hoarding cash in the belief that the crunch is here to stay.

This precautionary demand for cash can be seen as an erosion of faith in the RBI as the custodian of financial stability. The RBI must be more transparent about how it will stabilise the situation and achieve the transition to a cashless economy — besides bringing credit growth back on track. It has a key role to play in ensuring that the adverse socio-economic impact of demonetisation is short-lived.

Former governors have pointed to the RBI being exposed to 'reputational risk'. The RBI earned a name for itself by shielding the country from

financial turmoil in the wake of the East Asian crisis and the Great Recession; today, it is being held responsible for making a mess out of implementing demonetisation. But in order to act as a bulwark against financial contingencies, it must recover its lost voice, stature and, crucially, its autonomy. While the decision to demonetise was the prerogative of the Government, it is hard to understand why the RBI governor and his team did not place their views in the public domain. Since November 8, the finance ministry has been briefing the media almost on a daily basis on the cash status. As an independent authority, the RBI should not have shied away from explaining issues that fall squarely in its domain. Its recent monthly bulletins have nothing to say on the subject. The governor must reclaim lost ground at the earliest, for the sake of his institution and the financial security of the nation.