

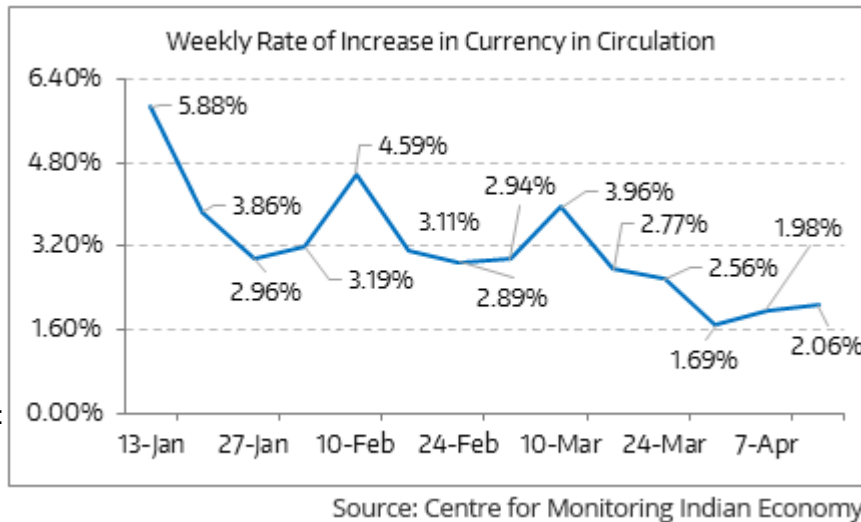
Fedspeak Reaches the Indian Shores

Retrieved Monday 24th of April 2017 08:18:25 PM

The Reserve Bank of India(RBI) released the [latest monetary policy report](#) on April 6, 2017. In this report, the RBI said that: "*In Q4[January to March 2017], remonetisation progressed at an accelerated pace.*" It also said: "*To sum up, economic activity should recover in 2017- 18 on the back of the fast pace of remonetisation*".

Remonetisation essentially refers to the [RBI printing currency](#) and pumping it into the financial system, in order to replace the currency rendered useless by demonetisation. Notes of Rs 500 and Rs 1,000 denomination were demonetised on November 8, 2016. Since then the RBI has been replacing the demonetised notes with new notes of Rs 500, Rs 2,000 and notes of other denomination which continued to remain legal in the aftermath of [demonetisation](#).

In the monetary policy report India's central bank claims that the remonetisation has happened at an accelerated/fast pace between January and March 2017. The trouble is that its own data shows otherwise. Take a look at Figure 1. It shows the weekly rate of increase in [currency in circulation](#) from mid-January 2017 to mid-March 2017.



As can be seen from Figure 1, the weekly increase in currency in circulation has been slowing down since early January. How is the weekly increase in currency in circulation obtained? The currency in circulation as on January 6, 2017, was at Rs 8,98,017 crore. This jumped to Rs 9,50,803 crore as on January 13, 2017. This meant an increase of Rs 52,786 crore or around 5.9 per cent (Rs 52,786 crore divided by Rs 8,98,017 crore). A similar calculation is carried out for every week since then. This is how the weekly increase in currency in circulation is calculated.

In fact, by the end of the March 2017, the weekly increase in currency in circulation was at a three-month low, since January 6, 2017. This explains why there has been a shortage in currency in the recent past, with the [ATMs running out of money](#) time and again.

In April 2017, the weekly increase in currency in circulation has recovered a little than in comparison to the past. Nevertheless, we need to remember that the total currency in circulation is still a long way away from where it was at the beginning of November 2016, before demonetisation happened.

On November 4, 2016, the total currency in circulation had stood at around Rs 17.98 lakh crore. On April 14, 2017, the latest data that is available from the RBI, the total was at Rs 13.9 lakh crore. The gap between then and now is still at 22.7 per cent. In the pieces that I wrote on demonetisation I had said that the total currency in replacement would be replaced by May 2017. But the pace at which the RBI is currently going, it seems it will take more time than that.

Also, the RBI in the monetary policy report claims that the remonetisation happened at an accelerated/fast pace. This as we can see from Figure 1 is clearly not the case. The rate of weekly increase in currency in circulation at the beginning of January was close to 6 per cent. By end of March this had dropped to 1.7 per cent.

Of course as any base gets bigger, its rate of increase is likely to fall. But in this case, it is worth remembering that we are still

nearly 23 per cent down from where the currency in circulation was before demonetisation.

One argument that has been finding favour is that the government needs to bring down currency in circulation so that people move towards [digital forms of payment](#). While there is no denying digital is good, it is not going to happen over a period of a few months. Human habits ingrained for decades don't change that fast. And given that the government will need to maintain the currency in circulation where it was before demonetisation was carried out. Every economy needs a certain amount of money to function and given the recent currency shortage we are nowhere near that.

The question is why has the weekly rate of increase in currency in circulation slowed down. Are the RBI and the government printing presses not working three shifts a day, like they were doing earlier? Is there a shortage of paper and ink? This is something only the RBI or the government can answer. The funny thing is that the banking journalists covering the RBI as a beat, haven't put this question to the central banker as yet.

And what explains the RBI's statement saying that the process of remonetisation or the weekly increase in the currency in circulation, is happening at a fast/accelerated pace. Why is the RBI saying something which its own data does not bear out?

Since the beginning of demonetisation, the communication of the government has been to make it look like a success and that is understandable. A similar bug seems to have bit the RBI as well when it has used words like accelerated and fast, when the weekly increase in currency in circulation has actually slowed down.

This brings me to something that TT Krishnamachari (TTK), who was the finance minister of the country, between 1957-1958 and 1964 and 1964, once said about the RBI. As TCA Srinivasa Raghavan writes in [Dialogue of the Deaf-The Government and the RBI](#): "TTK's view, expressed forcefully... [was] that the RBI was no more than a 'subordinate department of the finance ministry'."

In the case of demonetisation, the RBI is clearly behaving like a subordinate department of the finance ministry. And that does not bear well for the Indian economy.