THE HINDU BusinessLine

Banks reissuing soiled notes to beat cash crunch

Rutam Vora

Most banks hold soiled notes in their lockers/chests for remitting to RBI

Ahmedabad, November 28:

In order to tide over the currency shortage at branch level in urban and rural pockets, public and private sector banks have started issuing soiled but issuable legal tender to their customers.

The shortage of currency notes mounted after the demonetisation of ₹ 500 and ₹ 1,000 bills, which has compelled banks to put soiled currency notes of ₹ 50, ₹ 20 and ₹ 10 denomination back into circulation.

According to sources, the stock of valid legal tender has hit a rock bottom at most banks and currency chests. Several bank branches and the currency chests store soiled notes to be remitted to the RBI. But with the sudden announcement of demonetisation of 86 per cent of the total notes in circulation, many of the banks, fearing severe shortage of notes, held back the soiled notes in their lockers.

“The RBI normally makes pulp of these soiled notes, which can no longer be circulated. But the shortage of the currency is such that these banks have put these soiled notes back into circulation. They are dangerous from the hygiene point of view. These are dirty and fragile notes, which can't be used further, still we see them into circulation,” said a senior banker.

RBI definition

As per the RBI’s definition, soiled notes are those which have become dirty and slightly cut without its vital information such as number, watermark and governor's signature being affected.

A general manager of a public sector bank said, “There are issuable and non-issuable soiled notes. So, even if it falls under the category of soiled notes, they can be still issuable. With severe cash shortage, several banks are using these notes to meet the immediate demand for cash." According to banking experts, two types of notes usually come into circulation.

“First are the newly printed notes, the second are those which are reissued for circulation by the RBI. The soiled notes are the third category. These soiled notes are coming back into circulation. There is no stock of new notes hence banks are now reissuing even the non-issuable notes in certain areas,” said CH Venkatachalam, General Secretary, All-India Bank Employees' Association .

In July this year, the RBI had directed all banks to exchange a maximum of 20 pieces of soiled notes with a limit up to ₹ 5,000 per day. This exchange, targeted to withdraw soiled notes from the circulation, was allowed over the counter free of charge.

(This article was published in the Business Line print edition dated November 29, 2016)

MORE FROM BUSINESS LINE

Demonetisation: Income-Tax Amendment Bill tabled in LS

Why Centre is providing black money holders yet another opportunity by amending I-T Act?

No future for jobs in the info-tech sector