

Phasing out, replacing notes will prove to be major challenges

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Bank branches may face logistical problems, especially in rural pockets



BL Research Bureau:

At the stroke of midnight, when the world was keenly awaiting the results of the US presidential elections, India awoke to what the Centre believes is ostensibly a step towards freedom from corruption and black money.

For the common man, the move meant that the existing ₹ 500 and ₹ 1,000 notes turned worthless on Tuesday midnight. It is true that people have the option of depositing this money in banks or exchanging it for any denomination notes until December 30, but the sheer size of value of such notes in circulation and the patchy penetration of bank branches is likely to pose some logistics issues, at least in the interim.

Let us start by looking at some numbers. The current currency in circulation, according to the RBI, is about ₹ 17.5 lakh crore. Of this, around 86 per cent in value is likely to be in ₹ 500 and ₹ 1,000 notes, if the RBI's 2015-16 annual report numbers are any indication. This implies that close to over 2,200 crore notes in numbers and ₹ 15 lakh crore in value will have to be replaced, which will be no easy task.

The Reserve Bank places indent for banknotes with printing presses. The total number of banknotes supplied was 2,120 crore pieces in 2015-16, as against an indent of 2,390 crore pieces for the same period.

Circulation map

Then comes the issue of dispatching these notes through various bank branches and post office outlets. There are currently around 1.3 lakh bank branches across the country. But it would be simplistic to assume an equal flow of people into these branches to exchange or deposit money. There are pockets of concentration. For instance, over 60 per cent of accounts (savings) are in semi-urban, urban and metros. In value terms, only 18 per cent of deposits are from rural areas. With the rural economy being predominately a cash economy and not adequately serviced by bank branches, it could prove to be a Herculean task to replace the phased out notes.

Also, only select branches of scheduled banks, known as currency chests are authorised by the RBI to facilitate distribution of notes and coins. In these branches, notes and coins are stocked on behalf of the RBI. These currency chests then distribute notes and coins to other bank branches. There were about 4,075 currency chests as on March 2016, according to RBI's annual report. Around 2,700 of these are with SBI and its associate banks, while around 1,170 are with other nationalised banks. Private banks have only about 160 currency chests. Distribution of fresh notes received from the printing press across bank branches and cities, with minimal disruption, is therefore going to be a challenge.

Currency vacuum

Also, the cap on daily exchange and withdrawals from ATMs is likely to create a vacuum for at least the next 50 days.

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