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On first payday after demonetisation, banks run out of cash within hours and ATMs dry up

By [Saloni Shukla](#), [Joel Rebello](#) & [Pratik Bhakta](#), ET Bureau | Dec 01, 2016, 06:57 AM IST

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MUMBAI: Banks faced the brunt of public frustration again as customers found themselves standing in long lines to withdraw cash after November salaries were credited to accounts.

As banks ran out of notes, people waited at automated teller machines but struck out there too as supplies to cash dispensers were down to a fifth of required levels, according to bankers, who said a lack of new Rs 500 notes was worsening the situation.

"The situation will not change much from our side even if it is salary day because there is not enough cash in bank branches or ATMs," said an official at a large private sector bank. "The situation will only improve once Rs 500 notes come into circulation and it will take days before that happens."

On the first payday after the November 8 demonetisation of old Rs 500 and Rs 1,000 notes, banks ran out of cash within hours of opening as multiple reports suggested the government was trying to increase the supply of Rs 500 notes. The Reserve Bank of India has been striving to meet increased demand but bankers said rationing of supplies still seemed to be the order of the day.

"RBI is currently supplying cash based on a variety of calculations including how much a bank branch got the previous day," said another banker. "That will continue. We will continue to ration cash."

Supplies to ATMs have been falling short, said several people with knowledge of the matter.

"We are only getting around 20% of the daily cash that is required by us in order to get the entire ATM network of the country up and running in a normal manner," said one insider.

"Although under supervision from the ATM task force more than 1.5 lakh ATMs have already been tweaked for the new series notes, they are running dry due to lack of adequate supply of cash from the Reserve Bank of India."

Another of the persons cited above said, "In normal times, during the salary season we used to get around Rs 8,000 to Rs 10,000 crore from the banks to be distributed across ATMs in the country on a daily basis. Now we are getting around Rs 2,000 crore which is awfully inadequate."

Before the withdrawal of the Rs 500 and Rs 1,000 notes, ATMs used to be filled with about Rs 50 lakh of currency. That's dropped to Rs 5 lakh at a time because of the shortfall in supply.

A former RBI official said the central bank had stepped up printing and distribution of currency.

"Payday worries are overdone," he said. "The scarcity of currency is also because people are hoarding cash that was earlier easily circulated." Bankers said this was aggravating matters. "Consumption spending has seen a sharp fall and if money gets stuck with the people and does not come back to the banking system, how will banks recirculate the currency?" said one of them.

The weekly withdrawal limit is Rs 24,000 for savings accounts and Rs 50,000 for current accounts. ATM withdrawals are limited to Rs 2,500 at a time from dispensers recalibrated to take new Rs 500 and Rs 2,000 notes. Those that haven't been reprogrammed will dispense Rs 2,000 at a time.

Private sector banks, who've had to impose their own withdrawal limits on top of those set by the government, said they were worse off than state-owned counterparts. "What do you expect? We are running our branches on onesixth capacity," said one private bank executive. "We don't have enough cash. We need to cater to all customers who come to us."

Southern India was also feeling the pinch. "We received Rs 40 crore yesterday and Rs 20 crore today," said the CEO of a small private sector bank based in the south. "We are getting cash in multiples of Rs 2,000, some Rs 100 and if available, Rs 500. All this cash is being distributed among our branches. We are giving priority to the branches that have a lot of salary accounts because of payday. But we

cannot predict how long this cash will last.”

UNPREDICTABLE DEMAND

Bankers said the situation is such that it’s nearly impossible to predict demand or meet it.

“We have done an analysis on how much cash will be required based on the number of companies which distribute their salary through us,” said the retail head of a large private sector bank.

“However, there are many things which are not under our control like if people decide to withdraw their full weekly limit on one day or how much RBI gives us. Then there are other normal cash demands from our current account customers which we cannot ignore. We are hoping we can meet the demand.”

Private sector bankers said the state-owned ones that manage currency chests have an advantage when it comes to supply of notes.

Of the total 4,075 RBI-owned currency chests in India, State Bank of India and its associates manage more than half. Other public sector banks manage 1,173 chests while private ones run 160.

“Money disbursed to PSU (public sector unit) banks is more than us because they also need to meet the post office and rural demand,” said one private sector banker. “PSU banks are synonymous with the government machinery. They can’t be seen running out of cash so quickly, unlike us.”

State-owned bank officials rejected this contention.

“Our currency chests don’t mean it only caters to our demand. Currency chest is the property of the RBI,” said one. “We are getting currency as per our requirement.

The RBI links smaller banks to currency chests of one of the banks as per requirement. Some of the banks are linked to our currency chests while remaining are linked with other chests so it depends upon the linkage.”

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