

Cash Crunch in ATMs

What is the issue?

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- Shortage of cash across ATMs has been noticed in some states.

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- But experts have stated that this was largely a logistical challenge rather than a supply shortage.

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Why is there a shortage of cash in ATMs in some states?

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Multiple reasons have been stated for shortage of cash at ATMs:

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- Printing of lesser number of Rs 2000 notes

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- Capacity reduction in ATMs due to placement of smaller denominations

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- Hoarding of cash by the public due to the festivals ahead

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- Return of cash transactions after remonetisation with an increased average ticket size of ATM withdrawals as compared to the pre-demonetisation days.

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- Mismatch between “growth of currency in circulation and growth in economic activity”

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How does the RBI decide on how much cash is required?

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- At the start of every calendar year (before the beginning of the financial

year), RBI holds a meeting to calculate the country's annual cash requirement.

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- It works on an econometric model that accounts for variables like the quantum and value of notes - that are in circulation, that are destroyed and those that need replacement.

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- This is done with an eye on the projected GDP growth and inflation in the coming fiscal and the expected volume of e-transactions (fund transfers, card and e-wallet payments etc...).

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- RBI collects data from its 19 regional offices, and then decides on how much currency to allocate to each office — remittances are generally made quarterly.

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- 'Coins and Currency Division' of the Finance Ministry, that oversees the exercise is then intimated of the quantum to be printed in each denomination.

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- The information on the amount of currency to be printed is a closely guarded secret between the RBI and the Finance Ministry.

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- Based on the estimate of currency needed, an indent or order is placed with the country's four currency note printing presses.

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Is the current crunch different from the one during demonitisation?

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- During demonetisation, there was a cash crunch - not just at ATMs but also in bank branches as 86% of the currency was sucked out of the system.

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- Some experts opine that "different states have seen cash crunches at different times, and this is not in itself a new phenomenon".

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- Also, first half of April is said to always experience a demand spike for cash, as it is the beginning of the new financial year.

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- Additionally, the possibility of government stopping the printing of new Rs 2000 notes could've increased the quantum of hoardings.

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- High-denomination notes as percentage of the cash in circulation has

perhaps settled at a higher level than it was pre-demonetisation.

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- While there is indeed an attempt to reduce or re-normalise this, the current shortage at ATMs looks like a distribution issue rather than supply shortage.

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Source: Indian Express

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