IAS PARLIAMENT
Information is Empowering
A Shankar IAS Academy Initiative

Withdrawal of 2000 Rupee Currency Notes and it implications

Why in news?

The RBI has decided to withdraw 2000 rupees currency notes in circulation due to increasing digital payments and in pursuance of the clean note policy.

Why did RBI introduce 2000 rupee notes?

- The Rs 2000 note was introduced in November 2016 under Section 24(1) of The RBI Act 1934.
- Introduced primarily with the objective of meeting the currency requirement of the economy expeditiously after the legal tender status of Rs 500 and Rs 1000 notes was withdrawn.
- With the fulfilment of that objective, and once notes of other denominations were available in adequate quantities, the printing of Rs 2000 notes was stopped in 2018-19.
- This denomination is no longer commonly used for transactions besides, there is adequate stock of banknotes in other denominations to meet currency requirements.

Why did RBI decide to withdraw 2000 rupee currency notes?

- Since they were intended to replenish the Indian economy's currency in circulation quickly after demonetization and has achieved its objective.
- Some experts feel the upcoming state and general elections also may the reasons since the usage of cash spike these times.
- In pursuance of the ‘Clean Note Policy’ of the Reserve Bank of India, it has been decided to withdraw the Rs 2000 denomination banknotes from circulation.
- Increasing digital payments.
- The majority of the Rs 2000 denomination notes were issued prior to March 2017 and they have an estimated lifespan of 4-5 years.

What is the clean note policy?

- The Clean Note Policy seeks to give the public good-quality currency notes and coins with better security features, while soiled notes are withdrawn out of circulation.
- The RBI had earlier decided to withdraw from circulation all banknotes issued prior to 2005 as they have fewer security features as compared to banknotes printed after 2005.
- However, the notes issued before 2005 continue to be legal tender.

- They have only been withdrawn from circulation in conformity with the standard international practice of not having notes of multiple series in circulation at the same time.

What are the implications of the withdrawal?

- **Slowdown economic growth in the short term** - Since withdrawal could lead to a slowdown in cash based transactions.
- **Long term benefits** - Even though in short term the economy may down in long term it will lead to increased transparency and efficiency in the economy.
- **Banks** - Ease the pressure on deposit rate hikes.
- There will be reduction in cash in circulation and that will in turn help ***improve banking system liquidity***.
- **Shorter term government securities** - Improved banking system liquidity and an inflow of deposits into banks could mean that short term interest rates in the market drop as these funds get invested in shorter-term government securities.
- **Clean Notes** - To provide good quality currency notes with better security features to the public.

Quick facts

Indian currency system

- As per Section 22 of the RBI Act 1934, RBI has the sole authority to issue banknotes in India.
- RBI Act 1934 empowers RBI to issue all the banknotes except 1 Rs. note.
- Every currency note, other than Rs. 1 rupee note, bears on its face a promise from the Governor of RBI.
- The one rupee note, carries the name of India's Finance Secretary.
- Coins and 1 Rs. notes are issued by the Government of India under the coinage act 1909.
- One Rupee note is considered as coins as per the definition of coins given under Coinage Act.
- One Rupee note is issued by the Ministry of Finance and it bears the signatures of the Finance Secretary.

References

1. The Indian Express | Withdrawal Of Notes
2. Reuters | Implications Of Withdrawal
3. The Hindu Business Line | Reasons For Withdrawal



IAS PARLIAMENT

Information is Empowering

A Shankar IAS Academy Initiative