



Mains Practice Question

Q. Recently, the RBI has withdrawn the higher value currency notes as part of its Clean Note policy. Analyze the potential benefits and drawbacks of this step, considering its implications on the Indian economy. (250 Words)

24 May, 2023 GS Paper 3 Economy

Approach

- Start your answer by mentioning RBI's recent move to withdraw 2000 Rupee Note.
- In the body section, mention potential benefits and drawbacks of such move.
- Conclude accordingly.

Introduction

The RBI, recently, announced that in pursuance of the "clean note policy", it has been decided to withdraw the ₹2,000 denomination bank note from circulation. The note was introduced in November 2016 to address the process of re-monetisation in the aftermath of demonetisation to meet the currency requirement of the economy.

Body

Potential benefits and drawbacks of withdrawing the higher value currency notes:

Benefits:

- It may help curb black money and counterfeiting, as these notes are easier to hoard and circulate in the informal economy.
- It may also encourage digital payments and financial inclusion, as people may shift to using more electronic modes of transactions and bank accounts.
- It may reduce the operational costs and logistical challenges of handling high-value currency notes, as these notes require more security, storage and transportation.
- The withdrawal aligns with the RBI's Clean Note Policy, which aims to improve the quality and hygiene of banknotes in circulation.

Drawbacks:

- It may cause inconvenience and disruption to the public, especially those who rely on cash for their daily transactions and do not have access to digital or banking facilities.
- It may create a shortage of currency in circulation, as these notes constitute about 10.8% of the total value of notes in circulation as on March 31, 2023.
- It may affect the rural economy and small businesses, as these sectors depend largely on cash transactions and may face difficulties in exchanging or depositing their old notes.
- Withdrawal of high-value notes can cause temporary liquidity shortage and disrupt cash-based transactions if alternative denominations are not available, affecting economic activities.

Conclusion:

The withdrawal of the 2000 rupee note has pros and cons for the Indian economy. It can help curb black money, reduce counterfeiting, promote digital transactions, and streamline currency management. However, there are concerns about inconvenience, challenges for cash-dependent sectors, liquidity impact, and currency substitution. The policy's success depends on effective implementation and addressing these drawbacks for a smooth transition.

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