



## RBI to Withdraw Rs 2,000 Notes from Circulation

**For Prelims:** [Reserve Bank of India \(RBI\)](#), [Demonetization](#), [Corruption](#), [The Coinage Act, 2011](#), [RBI Act, 1934](#), [Finance Act 2017](#).

**For Mains:** RBI's Clean Note Policy, Impact of the Withdrawal of the 2000 Rupees Notes, Types of Legal Tender in India, Demonetization.

### Why in News?

On May 19, 2023, the [Reserve Bank of India \(RBI\)](#) announced **that it will withdraw the Rs 2000 denomination banknotes from circulation.**

- While the **existing notes will remain legal tender.** The RBI has provided a generous timeframe, **allowing individuals to deposit or exchange the notes until September 30, 2023.**
- This move is part of the **RBI's Clean Note Policy**, which aims to provide the **public with high-quality currency notes** and coins with improved security features.

### Why did the RBI Withdraw the 2000 Rupees Notes?

- **Withdrawal of 2000 Rupee Note:**
  - The RBI said that the withdrawal of the 2000 rupees notes is part of its **currency management operations.**
  - The Rs 2000 banknotes were introduced in **2016 to meet the immediate currency requirements** after the withdrawal of Rs 500 and Rs 1000 notes during the [demonetization exercise](#).
    - With an adequate supply of other denominations available, the **printing of Rs 2000 notes was stopped in 2018-19**, as the initial objective of expediting the currency requirement was achieved.
  - As of **March 31, 2023**, the value of Rs 2000 banknotes in circulation **has decreased to Rs 3.62 lakh crore, constituting only 10.8% of the total notes in circulation.**
    - The last time India **demonetised currency** was in **November 2016** when the government **withdrew 500 and 1000 rupees notes in an effort to remove forgeries from circulation.**
    - The move took away **86% of the economy's currency in circulation by value overnight.**
- **Exchanging and Depositing Rs 2000 Notes:**
  - The exchange limit for Rs 2000 banknotes is set at **Rs 20,000 at a time. Non-account holders can also exchange these banknotes at any bank branch.**
  - Deposits into bank accounts can be made without limitations, **subject to compliance with [Know Your Customer \(KYC\) norms](#)** and other applicable regulations.
- **Impact:**
  - The RBI governor stated that the impact of withdrawal of 2000 rupees notes will be **"very very marginal" on the economy** because it accounts for only **10.8% of currency in**

circulation.

- The withdrawal will not cause disruption "**either in normal life or in the economy**" as there is **an adequate stock of banknotes in other denominations**.
- Some economists said that the **withdrawal of the higher-value note is "a sensible form of demonetization"** and could **boost [bank deposits](#) at a time of high credit growth**.
  - The withdrawal could **ease the pressure on deposit rate hikes** and could also result in **moderation in short-term interest rates and would help to curb [black money](#) and [corruption](#)**.

## What is RBI's Clean Note Policy?

- The **Clean Note Policy** focuses on **providing the public with currency notes and coins that have enhanced security features while withdrawing soiled or old notes from circulation**.
  - A '**soiled note**' means a note which has **become dirty due to normal wear and tear and also includes a two piece note pasted together** wherein both the pieces presented belong to the same note and form the entire note with no essential feature missing.
- The **RBI had withdrawn all banknotes issued before 2005 due to their fewer security features** as compared to banknotes printed after 2005. However, these **older notes are still legal tender** and have been withdrawn to align with international practices.

## What is Demonetization in India?

- **About:**
  - Demonetization is the act of **stripping a currency unit of its status as legal tender**. The current form or forms of money is **pulled from circulation and retired, often to be replaced with new notes or coins**.
- **Legality in India:**
  - The legal basis for demonetization in India is **Section 26(2) of the Reserve Bank of India Act, 1934**, which empowers the **central government to declare any series of banknotes** as ceasing to be legal tender by notification in the Official Gazette, **on the recommendation of RBI**.
  - The **legality of demonetization was challenged** in several petitions filed in various courts across India.
    - However, the **Supreme Court** upheld the demonetisation as valid and stated that **demonetisation of currency notes of Rs 500 and Rs 1,000 satisfied the [test of proportionality](#)**.
      - The **test of proportionality refers to whether the benefits of demonetisation outweigh the costs**.
      - To satisfy the test of proportionality, the **benefits of demonetisation must be significant enough to justify the costs and disruptions that it may cause**.
- **Advantages:**
  - **Stabilization of Currency:** Demonetization has been used as a **tool to stabilize the currency and fight inflation, facilitate trade, curb counterfeiting and access to markets, and push informal economic activity into more transparency and away from black and gray markets**.
  - **Curbing Black Money:** The government argued that demonetization would flush out the black money or unaccounted income held in cash by **tax evaders, corrupt officials, criminals and terrorists**.
    - This would **increase the tax base** and revenue of the government and **reduce corruption and crime in the country**.
  - **Promotes Digitization:** It also **encourages digitisation of commercial transactions**, formalizes the economy and so, boosts government tax revenues. It also improves

**transparency, efficiency and convenience in the payment system** and reduces the cost of printing and managing currency.

- The **formalization of the economy means bringing companies under the regulatory regime of government** and subject to laws related to manufacturing and income tax.

▪ **Disadvantages:**

- **Temporary Slowdown:** The conversion process during demonetization can lead to a **temporary slowdown in economic activity**.
  - The disruption caused by the sudden withdrawal of old currency and the **limited availability of new currency** can **hamper business transactions, consumer spending, and overall economic productivity**.
- **Administrative Cost:** Implementing demonetization **involves substantial administrative costs**. Printing **new currency notes, recalibrating ATMs, and disseminating information about the changes** can be expensive.
  - These costs are typically **borne by the government**, which can strain public finances and **divert resources from other essential sectors or public welfare programs**.
- **Impact on Cash Driven Sectors:** Cash-driven sectors, such as **retail, hospitality, and small businesses, can suffer significantly during demonetization**.
  - Small businesses, especially those operating on **thin profit margins**, may struggle to adapt to the new payment systems, **resulting in reduced sales, layoffs, and, in extreme cases, business closures**.

## What is Legal Tender in India?

▪ **About:**

- A legal tender is a form of currency that is **recognised by law as an acceptable means for settling debts or obligations**.
  - RBI is responsible for determining which **forms of currency are considered valid for transactions**.
- It consists of **coins issued by the Government of India under Section 6 of [The Coinage Act, 2011](#)**, and banknotes issued by the Reserve Bank of India under **Section 26 of the [RBI Act, 1934](#)**.
  - Govt **issues all coins upto ₹ 1,000, and 1 Rupee Note**.
  - RBI issues **currency notes other than ₹ 1 Note**.

▪ **Types:**

- Legal tender can be **limited or unlimited in character**.
  - In India, coins function as **limited legal tender**. **Coins with denominations equal to or higher than one rupee can be used as legal tender** for amounts up to **one thousand rupees**.
    - Additionally, **fifty paise (half a rupee) coins** can be used as legal tender for **amounts up to ten rupees**.
  - Banknotes function as **unlimited legal tender** for any amount stated on them.
    - However, A **new Section 269ST** was added to the **[Income Tax Act](#)** as a result of the measures taken by the **[Finance Act 2017](#)** to **curb black money**.
    - A cash transaction was restricted by **Section 269ST** and was **only allowed to be worth up to Rs. 2 Lakh per day**.

