



## 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**.

