Impacts of withdrawal of 2000 rupee notes

Why in news?

The Reserve Bank of India's (RBI's) decision to withdraw its highest denomination currency note from circulation is likely to improve banking system liquidity.

What was the 'precision strike'?

- **Introduction -** The 2000 rupee note was introduced in *November 2016* to address the aftermath of demonetisation to meet the currency requirement of the economy in an expeditious manner.
- **Withdrawal -** The Reserve Bank of India (RBI) decided to withdraw 2,000 rupees notes from circulation as a part of its currency management.
- The 2000 rupee notes continues to be *legal tender*, as the withdrawal is not regarded as demonetisation.

In value terms, the share of 2,000 rupee denomination notes (at Rs.3.62-lakh crore) was at 10.8% as on March 2023.

- These notes can be exchanged at any bank branch or RBI offices up to September 30, 2023.
- Exchange of Rs.2,000 bank notes to notes of other denominations can be made up to a limit of Rs 20,000 at a time.
- To know more about this withdrawal, click here.

What are the impacts of 2000 rupee note withdrawal?

- The *'Clean note policy'* move tries to improve banking system liquidity, bringing down recently elevated short term rates.
- The deposit of 2000 rupee notes in bank can boost the repayment of loans, consumption and a possible GDP boost.

- **Liquidity -** About 2.5-3 trillion rupees of banking sector liquidity leaks out as currency in circulation each year.
- The Deposit of 2,000 rupee notes in Banks could result in a boost in bank deposits and its liquidity.

ICICI Securities Primary Dealership estimates the liquidity surplus could increase to Rs.1.5-2 trillion.

- **Deposit -** There is a surge in incremental C/D (Credit-Deposit) ratio, nearing pre-pandemic levels.
- The banks are ready to meet funding needs from diverse sectors giving boost to the economy.

- **e-RUPI push -** The absence of higher denomination notes gives rise to the usage of digital payments.
- The RBI's retail CBDC project (e-RUPI) is ready to hit the streets.
- The move wills propel faster adoption of e-RUPI for merchant transactions, concurrent with physical fiat currency.
- **Short term rates** - If liquidity surplus improves sharply because of these deposits, the weighted average call rate could sustain below the repo rate for a short period of time.
- **G-secs -** Short-term interest rates for government securities, bank bulk deposits and corporate borrowings will also likely ease.
- **T-bills -** Due to the ease in interest rates, there will be a demand for Treasury bill auctions.
- **Bonds -** The eventual spill over to 3-year and 5-year bonds and yields of such notes could fall by up to 10 basis points.

References

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3. Business Line - 2000 rupee note withdrawal will improve liquidity, ease short-term rates

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