

## **Withdrawal of 2000 Rupee Currency Notes and its 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the currency requirement of the economy expeditiously after the legal tender status of Rs 500 and Rs 1000 notes was withdrawn.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 be 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seeks to give the public good-quality currency notes and coins with better security features, while soiled notes are withdrawn out of circulation.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- They have only been withdrawn from circulation in conformity with the standard international practice of not having notes of multiple series in circulation at the same time.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](#)