

₹2,000 note scrapped, to remain legal tender

Up to ₹20,000 exchange allowed at a time until September 30

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The Reserve Bank of India on Friday announced the withdrawal of the ₹2,000 currency note — which was introduced during the demonetisation exercise in 2016 — from circulation, citing its ‘Clean Note Policy’, which aims to remove damaged, counterfeit, or soiled notes from circulation, and lack of usage.

The central bank clarified that the ₹2,000 denomination banknotes will remain legal tender. Bank customers have been asked to start depositing or exchanging ₹2,000 notes from May 23 at bank branches; they can be exchanged at 19 regional offices of the RBI. Such an exchange or deposit facility will be available until September 30. During the demonetisation exercise in 2016, the then ₹500 note and ₹1,000 lost legal tender status.

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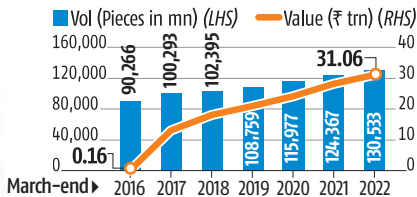
OUT OF FAVOUR

Trend in ₹2,000 currency note circulation

March-end	Volume (pieces in mn)	% of total	Value (in ₹ trn)	% of total
2017	3,285	3.3	6.57	50.2
2018	3,363	3.3	6.73	37.3
2019	3,291	3.0	6.58	31.2
2020	2,740	2.4	5.48	22.6
2021	2,451	2.0	4.90	17.3
2022	2,142	1.6	4.28	13.8
2023			3.62	10.8

Source: RBI

BANK NOTES IN CIRCULATION



NOTE THAT!

■ ₹2,000 notes with public can be deposited in bank accounts or exchanged at banks and RBI's 19 regional offices from May 23

■ Exchange of notes allowed up to a limit of ₹20,000 at a time

■ Deposits can be made without restrictions

■ Non-account holders also can exchange at any bank branch

‘Won’t have impact on economy’

Finance Secretary **TV Somanathan** spoke to Shrimati Choudhary in New Delhi on why the step was taken. Edited excerpts:

Why is ₹2,000 note being withdrawn?

It has outlived its purpose, especially with the growth of digital transactions at payment systems. It was introduced for a quick circulation after the [2016] demonetisation, and it has served its purpose. Now there is no need to have a high-denomination note keeping in view

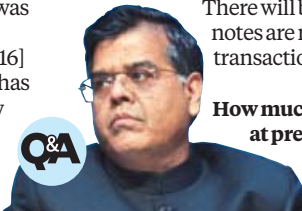
the spread of electronic transactions.

What impact will the move have on the economy?

There will be no impact as these notes are not largely used for transactional purposes anyway.

How much is the circulation at present?

I don't have the data.



ious avenues to ascertain the same. "It has been a long-standing suspicion of Sebi that some of the public shareholders are not truly public shareholders and could be fronts for the promoters of these companies," it said. While the FPIs in question declared the beneficial owner by identifying the natural persons controlling their decisions, a 2018 law had done away with the very requirement to disclose the last natural person owning any economic interest in the FPI.

₹2,000 note...

Customers can exchange ₹20,000 at a time. The RBI has not placed any restriction on the amount in ₹2,000 notes that can be deposited at a time. A non-account holder also can exchange ₹2,000 banknotes up to the limit of ₹20,000 at a time at any bank branch.

"Deposit into bank accounts can be made without restrictions subject to compliance with extant Know Your Customer (KYC) norms and other applicable statutory/regulatory requirements," the RBI stated in the frequently asked question segment on if there is a limit on depositing ₹2000 banknotes in a bank account.

Banks have been asked not to no longer issue notes of such denomination. The RBI said it had stopped printing ₹2000 note in 2018-19. There has been a continuous decline in the number of pieces of ₹2000 note in circulation since 2018-19. Total value of ₹2000 notes in circulation declined from ₹6.73 trillion at its peak as on March 31, 2018 (37.3 per cent of notes in circulation) to ₹3.62 trillion constituting only 10.8 per cent of notes in circulation as on March 31, 2023.

The RBI said that about 89 per cent of these banknotes were issued before March 2017,

and are at the end of their estimated life span of 4-5 years." It has also been observed that this denomination is not commonly used for transactions. Further, the stock of banknotes in other denominations continues to be adequate to meet the currency requirement of the public," the central bank said, explaining the rationale behind its decision.

It mentioned that a similar exercise was carried out in 2014 when it decided to completely withdraw all bank notes from circulation issued prior to 2005.

After declaring the old ₹500 note and ₹1000 note will not be legal tender from November 8, 2016, the ₹2000 note was introduced, primarily to meet the currency requirement of the economy in an expeditious manner.

"The objective of introducing ₹2000 banknotes was met once banknotes in other denominations became available in adequate quantities. Therefore, the printing of ₹2000 banknotes was stopped in 2018-19," the RBI said.

RBI typically follows the Renard Series for currency denomination, that is 1, 2, 5 or 10, 20, 50, and alike. From that perspective, the ₹2000 note was the odd one. The idea behind following the Renard Series is that any transaction can be completed using these denomination currency notes. A ₹200 note was also issued in 2017, which completed the 100, 200 & 500 series.

The move to withdraw ₹2000 note will be a boost to banks' deposit mobilisation efforts — as was evident during the 2016 demonetisation exercise. On the RBI's move, a top government official said: "Since 2016, it was an urgent imperative to remonetise the economy. The feeling was that while ₹500 is a good denomination, it would have taken more than a year to remonetise the econ-

omy unless a much bigger denomination was used. By March-April 2017, most of the cash shortage problem issues had dissipated. The 2,000 denomination note has served its purpose."

Karthik Srinivasan, senior vice president, financial sector ratings, ICRA, said: "As witnessed during demonetisation, we expect the deposit accretion of banks to improve marginally in near term. This will ease the pressure on deposit rate hikes and may also result in moderation in short-term interest rates." Bank deposits have been lagging credit growth for some time now. The latest data shows bank deposits grew 10.4 per cent year-on-year until May 5, 2023, as compared to credit growth of 15.5 per cent.

Following the Reserve Bank's move, CEOs of leading Indian companies were expecting not a major impact on their business because of the withdrawal of such a high currency note. Tarun Arora, CEO of Zydus Wellness, said: "I expect business as usual, but we will have to wait and watch. I am hopeful that the impact won't be that hard on the business."

Vimal Nadar, head, research, Colliers India, a real estate advisory firm, said the withdrawal of ₹2,000 denomination notes was an expected and timely move towards prudent currency management within the realm of maintaining banking and financial discipline. "Such measures further reduce/eliminate the probable cash component in high-value real estate transactions. In the past few years, the RERA and demonetisation have brought in significant levels of transparency in real estate, mainly contributing to fair market price determination," he added.

With inputs from Arup Roychoudhury & Dev Chatterjee

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