

## India: To discontinue its 2000-Rupee notes

May 24, 2023

May 23, 2023: New Delhi: Reserve Bank of India has decided to withdraw its highest denomination currency notes from circulation. As of now, the 2000-Rupee note, introduced into circulation in 2016, will remain legal tender. But citizens have been asked to deposit or exchange these notes by Sept. 30, 2023.

The value of 2000-Rupee notes in circulation is 3.62 trillion Indian rupees (\$44.27 billion). This is about 10.8% of the currency in circulation.



"This denomination is not commonly used for transactions," the Reserve Bank of India said in its communication while explaining the decision to withdraw these notes.

This withdrawal will not create any big disruption, as the notes of smaller quantity are available in sufficient quantity. Moreover, in the past 6-7 years, the scope of digital transactions and e-commerce in India has expanded significantly.

As the government has asked people to deposit or exchange the notes for smaller denominations by Sept. 30, bank deposits will rise. This comes at a time

when deposit growth is lagging bank credit growth. This will ease the pressure on deposit rate hikes. Banking system liquidity will also improve.

"Since all the 2000-Rupee notes will come back in the banking system, we will see a reduction in cash in circulation and that will in turn help improve banking system liquidity," said Madhavi Arora, economist at Emkay Global Financial Services.

**DEMONETIZATION of 2016:** On 8<sup>th</sup> November 2016, Narendra Modi-led government had withdrawn 86% of the economy's currency in circulation overnight. This was done to eliminate the effects of an organized effort by ISI, an Agency of Pakistan Army, to print high-value currency notes and push them into Indian market to damage India's economy.

In 2016, when the decision to demonetize was to be taken, it was found that printed currency of new designs of Rs 500 and Rs 2,000 were ready with Reserve Bank of India. So, these were used so that there would not be a grave shortage of new currency notes after demonetization of currency notes of old design. However, the central bank has frequently said that it wants to reduce high value notes in circulation and had stopped printing 2000-rupee notes over the past four years.

**DIGITAL ECONOMY:** India, which is driving the global digital economy, had clocked about 70 billion digital payment transactions in 2022—the highest in the world. On an average India had also been **registering 280 million digital transactions a day**. In 2023, digital transactions are likely to increase further.

While Companies like Paytm and Google Pay pioneered digital payments in India, the **Unified Payments Interface (UPI)**, an instant real-time payment system introduced by **National Payments Corporation of India (NPCI)** has been a game changer.

In October 2022, Prime Minister had launched **75 Digital Banking Units** in 75 districts of India to commemorate 75 years of independence of the country.

Each DBU is a brick-and-mortar outlet, which provides both education and a variety of digital banking facilities to people such as the opening of savings accounts, balance-check, printing passbooks, transfer of funds, investment in fixed deposits, loan applications, stop-payment instructions for cheques issued, applications for credit and debit cards, tax and bill payment and nominations.

**By--Dr K N Mistry**