

Effects of Withdrawal of Rs. 2000 Note Circulation by RBI on the Indian Economy

Shivanand Rathod

Guest Faculty,

Department of Studies and Research in Economics

Rani Channamma University, Belagavi, Karnataka, India

Abstract:

The Note withdrawal from the economy is not new phenomenon, Due to its potentially extensive impact on the complicated structure of the Indian economy, the Reserve Bank of India's (RBI) recent decision to eliminate Rs. 2000 notes from circulation sparked intense discussions and arguments. This carefully designed strategic approach indicates a landscape with a delicate combination of alluring options as well as difficult challenges, driven by the ultimate goal of decreasing the prevalent problems of hoarding and black money. The purpose of this paper is to carefully explore a variety of aspects of the withdrawal of Rs. 2000 notes, paying close attention to its historical context, justification, and related issues. In 1946 and 1978, the Indian government demonetized banknotes with the intention of preventing tax fraud through the use of "black money" kept outside of the legal economy. The Indian government announced the demonetization of all 500 and 1,000 rupee banknotes from the Mahatma Gandhi Series on November 8, 2016. Additionally, it announced the release of fresh 500 and 2,000 rupee banknotes in place of the ones that were demonetised. According to Prime Minister Narendra Modi, the move would diminish the shadow economy, boost cashless transactions, and decrease the use of illicit and counterfeit money to finance crime and terrorism. And the government has now withdrawn the 2000 rupee notes. The major objectives of the study are To Comparing Demonetization in 2016 with the present move, To know the reasons of Rs. 2000 note withdrawal in India, To know the Pros and cons from withdrawal Rs. 2000 note in India, To study the effects from withdrawal Rs. 2000 note in India.

Key words: Note withdrawal, Reserve bank of India, Economy, Demonetization

Introduction:

The Rs 2000 note was withdrawn out of circulation on Friday, May 19, 2023, in accordance with the RBI's "clean note policy". The RBI has instructed banks to cease immediately issuing these notes. The public has been permitted till September 30, 2023, by the apex bank, to exchange or deposit any Rs. 2,000 notes they may have with any bank branch or with the authorised RBI offices. The removal of Rs 2,000 notes, on the other hand, was not unexpected, as the RBI has been gradually reducing the amount of Rs 2,000 notes since the 2016 demonetization. According to recent trends, these notes would have been phased out of circulation during the following several years. This action, it is said, should not come as a surprise to anyone. In 2018–19, the RBI has discontinued printing the largest denomination notes. Since the central bank stopped printing new notes in the previous several years, the total worth of the currency has steadily decreased. Only 10.8% of notes in circulation as of the end of March had a cumulative value of Rs 2,000, which fell to Rs 3.62 lakh crore. At its peak in March 2018, the value of the currency note was Rs 6.73 lakh crore. After the midnight ban on Rs. 500 and Rs. 1,000 notes in November 2016 known as demonetisation, Rs. 2,000 notes were introduced.

The Rs 2000 note was released in November 2016 in accordance with Section 24(1) of The RBI Act, 1934, principally with the aim of immediately dealing with the economy's need for money following the withdrawal of the legal tender status of the Rs 500 and Rs 1000 notes. Once that goal was achieved and sufficient amounts of notes in various denominations were accessible. Prior to March 2017, the RBI released the majority of the Rs 2000 notes; these notes have already reached the end of their anticipated lifetime of 4-5 years. There is an adequate supply of banknotes in other denominations to fulfil cash needs, and this denomination is no longer often used for transactions.

Objectives:

- To Comparing Demonetization in 2016 with the present move
- To know the reasons of Rs. 2000 note withdrawal in India
- To know the Pros and cons from withdrawal Rs. 2000 note in India
- To study the effects from withdrawal Rs. 2000 note in India

Methodology:

This Paper is purely based on secondary data. The data have been collected from various journals, Reports, Articles, books and websites.

The Rs 2000 Note's design:

The obverse side of the new 2000 banknote, which measures 66 mm by 166 mm and is coloured magenta, has an image of Mahatma Gandhi, the Ashoka Pillar Emblem, and the governor of the Reserve Bank of India's signature. For the benefit of people who are blind or visually impaired, it includes Braille writing on it. The emblem and tagline for the Swachh Bharat Abhiyan are also included on the back side, along with an image of the Mangalyaan, which symbolises India's first interplanetary space project.

Comparing the 2016 demonetization with the current action:

- ✓ People often contrast the current initiative with the 2016 Demonetization campaign. Observers claim that comparing the current action of withdrawing Rs 2,000 notes with the Demonetization effort in 2016 is fundamentally incorrect for the following reasons:
- ✓ At the time of demonetization in 2016, the withdrawal of money had an influence on 86% of the total amount of currency in circulation in the system, necessitating the printing of a high denomination note of Rs 2,000. On the other hand, it appears that the removal of the Rs 2,000 notes has helped boost the economy by adding additional money to the system.
- ✓ The Rs. 2,000 note encouraged black marketers to stockpile big denomination notes since it was simple to keep and trade. Since all banks had adjusted their ATMs to handle Rs 2,000 notes, these notes had really started to disappear from the market very quickly and the banks were complaining about not having enough Rs 2,000 notes.
- ✓ The current action by the RBI to withdraw the Rs. 2000 notes is distinct from demonetization, when Prime Minister Narendra Modi declared the Rs. 500 and Rs. 1,000 notes—which made up almost 86% of the money in circulation—invalid overnight.
- ✓ Honest people who have access to legal 2000-rupee notes shouldn't fear. To deposit or exchange these currencies at bank branches or other authorised RBI markets, there is enough time and space available. The public has until September 30 to accomplish this. Starting on May 23, 2023, customers can exchange 2,000 rupee notes for 20,000 rupees at a time.
- ✓ The current amount of cash in circulation is made up of a far smaller percentage of the Rs 2,000 notes than the Rs 500 and Rs 1,000 notes. In other words, it seems sense that the average person would only have a small number of these notes. It is very doubtful that this time will see the same level of fear as was shown during the 2016 demonetization.

According to the Reserve Bank of India, the entire amount of Rs. 2000 notes in circulation has decreased from Rs 6.73 lakh crore, which represented 37.3% of notes in circulation on March 31, 2018, to Rs 3.62 lakh crore, which would represent just 10.8% of notes in circulation on March 31, 2023.

Reasons for Ban on 2000 Rupee Notes:

- **Countering Counterfeit currency:** The government's efforts to combat counterfeit currency are another key factor. Due to their bigger denomination and greater susceptibility to forgery, 2000 rupee notes represented a risk to the reliability of Indian money. The prohibition attempts to reduce this danger and improve the legal tender's security characteristics.
- **Reducing Black Money:** One of the main goals of demonetization is to tackle the problem of black money, which is unreported wealth or income that avoids taxes. The government wants to prevent the stockpiling of unaccounted money, thus it has banned 2000 rupee notes, which were thought to be popular among people engaged in illegal operations.
- **Encouraging Digital Transactions:** This measure reinforces the government's emphasis on encouraging digital payments and a cashless economy. It intends to encourage individuals to use digital forms of transactions, increasing transparency and minimising dependency on cash, by prohibiting the usage of high-denomination notes.
- **Disrupting criminal Activities:** The sudden ban on 2000-rupee notes intends to interfere with the money-laundering, terrorism, and corruption-related financial operations of illicit activities. The government wants to make such actions more difficult to carry out by invalidating a large part of undeclared currency.

Rules for the 2000 Rupee Exchange:

- The RBI has recommended consumers to "approach bank branches for deposit and/or exchange" of these banknotes within the designated exchange period. The RBI has stated that all banks would continue to accept deposits into accounts and exchanges for Rs 2000 banknotes till September 30, 2023. There will be an exchange option accessible at 19 RBI Regional Offices with Issue Departments till September 30.
- A maximum of 20,000 rupees can be exchanged at one time for Rs 2000 bills. You don't have to go to your own bank; anyone who isn't a bank account holder can exchange up to 20,000 rupees' worth of notes at any bank location.

- Up to a maximum of Rs 4,000 per day for an account holder, exchanges of Rs 2000 banknotes can also be done through commercial correspondents.
- 4. According to the RBI, deposits into bank accounts are unrestricted "subject to compliance with existing Know Your Customer (KYC) norms and other applicable statutory / regulatory requirements."

❖ **Pros of note ban:**

- Black money is a threat that can be somewhat handled.
- This action is anticipated to reduce the government's fiscal deficit.
- Illegal activities like sponsoring terrorism and utilising black money will suffer.
- The sponsorship of elections through fraudulent methods is typically connected with the development and circulation of black money; but, with this plan, that association will be weakened.
- The illegal use of counterfeit money that harms the real economy will be eradicated.
- In such a case, honest workers will be rewarded.
- The mobilisation of bank deposits will rise, which might result in more credit being made available to consumers and a decrease in interest rates.
- The government has taken a significant step towards creating a cashless society.
- One of the main ways that people make black money is through real estate. It is anticipated that as a result of this action, real estate market rates may bottom out or reduce.

❖ **Cons of note ban:**

- For starters, not all black money is kept in the form of cash, and secondly, the solution simply addresses the symptom rather than the underlying problem: tax fraud and corruption are the major causes of black money creation. This strategy curbs the use of illicit funds, but it can't stop the causes.
- Institutions like banks and hospitals are under a lot of stress.
- Panic amongst the common man.
- The new currencies are now in extremely high demand.
- The owners of small businesses and retailers face challenges.
- There is an increase in black marketing of the new notes and currencies.

❖ **Effects of the Removal of the Rs 2000 Note in India:**

- ✓ Impact on economic growth: The value of the Rs. 2000 notes now in circulation is Rs 3.62 lakh crore, or around 10.8% of the total amount of money in circulation. Therefore, it is unlikely that this withdrawal would cause much of a disruption because there are enough lower denomination notes accessible. E-commerce and digital transactions have considerably developed during the previous 6-7 years.
- ✓ Effects on Banks: Bank deposits are projected to increase as a result of the government's request that the notes be deposited or exchanged for lower denominations by 30th September 2023. Additionally, since all of the Rs. 2000 notes would be redeposit into banks, there could be a decrease in the amount of currency in circulation, which might enhance the banking system's liquidity. This is significant since it occurs at a time when bank loan growth is outpacing deposit growth.
- ✓ Effects on the Bond Markets: As more money is invested in shorter-term government securities as a result of increased banking system liquidity and deposits flowing into banks, short-term interest rates may decline.
- ✓ Automobile: Two-wheeler sales in the rural market are likely to come down as know to be driven by cash transactions. And luxury car segment, which may see a slowdown as it is largely driven by unaccounted money.
- ✓ Payment Banks: Note ban will give a major push to e-wallets and Unified Payment Interface, an inter Bank system launched by the reserve bank of India and national payment corporation of India, which will allow peer to peer and peer to entity payments.
- ✓ Fast-moving consumer goods: Discretionary consumption may see some impact as consumers with a liquidity crunch may become choosy on where the spend.
- ✓ Gold: Demand for gems and jewellery likely to decline in the short term and impacts the booth the wholesale and retail markets for bullion. Sales are likely to go down until the public is comfortable with this change.

Conclusion:

The 'Clean Note Policy' of the central bank was followed when the decision was made. In every bank branch, customers can deposit 2000 rupees note into their accounts or exchange them for bills of other denominations. Deposits into bank accounts can be made normally, that is, without limits and in accordance with current directives and other relevant legal requirements. The government of India has taken a huge move to combat black money, stop currency fraud, and encourage digital transactions by banning 2000 rupee notes. While there could be some short-term disruptions, there might also be long-term economic gains. This approach will be successful if it is implemented well, the public is made aware of it, and citizens work together to adopt digital payment methods.

The goal of the government is to increase efficiency, transparency, and financial inclusion while reducing dependency on cash. People can adopt digital payment options by becoming used to the absence of valuable currency. This strategy may also lessen the use of counterfeit money and improve transaction control, ultimately assisting in the formalisation of the economy. The removal of Rs. 2000 notes is also anticipated to have a significant impact on the informal sector, which is heavily dependent on cash transactions. The preferred mode of payment for many small businesses, street vendors, and agricultural workers is cash. As a result, if these high-value notes are phased out, these entities could find it difficult to transition to different payment methods. Given the correct support and incentives, this transformation might potentially enable a wider range of economic activities easier to formalise. Formality can encourage greater adherence to tax regulations and increase transparency. Beyond addressing hoarding and illegal money, the discontinuation of notes denominated in rupees 2000 has further effects.

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