

End the ₹2,000 Denomination Banknotes

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Summary

In 2018-19, the Reserve Bank of India (RBI) discontinued printing the ₹2,000 denomination banknotes. It was believed to be that these notes were not commonly used in cash transactions due to their high denomination, and having been printed prior to 2017, had outlived their lifespan of four to five years. As such, in pursuance of the 'Clean Note Policy' of the central bank, these banknotes are to be exchanged with newer banknotes of the lesser denomination. This position of the RBI has now been confirmed in an announcement wherein the public has been advised to exchange these banknotes for notes of smaller denominations.

In a communication issued to all banks on 19 May 2023 and released to the public, the Reserve Bank of India (RBI) announced its decision to withdraw [the currency notes of ₹2,000 denomination](#) from circulation. While such notes will continue to be legal tender, the public has been advised to exchange these notes for notes of other denominations by September 2023 in pursuance of the RBI's '[Clean Note Policy](#)'. In its release, the RBI stated that the ₹2,000 denomination banknote was introduced in [November 2016](#) under Section 24(1) of the RBI Act, 1934, primarily to meet the immediate currency requirement of the economy after the withdrawal of the legal tender status of the ₹500 and ₹1,000 denomination banknotes in circulation at that time. With the fulfilment of the objective by introducing ₹2,000 denomination banknotes and the availability of banknotes in other denominations in adequate quantity, the printing of ₹2,000 banknotes was stopped in 2018-19.

The RBI has further clarified that the majority of the ₹2,000 denomination banknotes were issued before March 2017 and have completed their estimated lifespan. They are also not observed to be commonly used for transactions anymore. Therefore, in pursuance of the 'Clean Note Policy', the ₹2,000 denomination banknotes shall be withdrawn from circulation. All banks have been instructed to discontinue the issuance of such notes immediately. The facility for the exchange of ₹2,000 denomination banknotes will be provided by all bank branches till 30 September 2023.

However, only 10 such bank notes can be exchanged at a time. The deposit of ₹2,000 denomination banknotes into accounts across all banks can be made in the usual manner, without restrictions and subject to compliance with extant applicable statutory requirements such as '[Know Your Customer](#)'.

The ₹2,000 denomination banknote will continue to maintain its legal tender status. The public can continue to use these banknotes for its transactions and receive them in payment. These instructions have been made applicable till 30 September 2023.

About 89 per cent of the ₹2,000 denomination banknotes were issued before March 2017, and are at the end of their estimated life span of 4-5 years. The RBI has clarified that the total value of these banknotes in circulation declined from ₹6.73 trillion (S\$109 billion) at its peak on 31 March 2018 (37.3 per cent of notes in circulation) to ₹3.62 trillion (S\$58 billion) on 31 March 2023, constituting only 10.8 per cent of notes in circulation. The RBI has further justified this decision on the ground that this denomination is not commonly used for transactions and the stock of banknotes in other denominations is adequate to meet the currency requirement of the public.

This announcement by the RBI has renewed the debate regarding the futility of the November 2016 demonetisation, its flawed introduction and the non-utility of banknotes of such a large denomination. There is also a certain element of confusion about whether such banknotes can continue to be legal tender for the purchase of goods and services after 30 September 2023 since the facility of exchange is permissible only up to that date. There was also the objective of combating terror, counterfeit currency and unaccounted wealth which the 2016 demonetisation was meant to curb. The worry of counterfeit ₹2,000 denomination banknotes being in circulation continues to loom large. India's National Crimes Record Bureau statistics show that between 2016 and 2020, the number of counterfeit ₹2,000 denomination banknotes recovered in the country rose dramatically from 2,272 to 244,834 pieces. Meanwhile, the RBI had stated earlier that most unaccounted wealth or black money is stored in real estate and gold and not in currency. This indicates that as a medium of exchange too, this denomination was of very limited utility in an economy which uses cash as a medium for small value transactions.

The debate and criticism of government actions aside, it needs to be appreciated that banknotes of ₹2,000 denomination were issued in 2016 merely as an interim arrangement to smoothen the withdrawal of ₹1,000 and ₹500 denomination banknotes. It was never intended to be a permanent arrangement as it would be ironic to withdraw ₹1,000 denomination banknotes and replace them with a higher denomination, ostensibly to fight counterfeit and terror funding. Thus, the present announcement appears to be designed to speed up the withdrawal of this banknote. Furthermore, there need not be any fear of the common man being inconvenienced as he would hardly hold much of his limited wealth in such denominations. The RBI has, in any case, provided a period of four months which would be sufficient for anyone to exchange holdings of ₹2,000 denomination banknotes.

There does not appear to be any hidden motives behind the RBI's move as 97 per cent by value of transactions in India is now done through digital means. Digital currency is the way forward for even small transactions and the common man is familiar with it, especially India's Unified Payment Interface. With regards to the prospects beyond 30 September 2023, it needs to be reiterated that practically all such banknotes would be in RBI custody and not in circulation after the date. Thus, even declaring it as a legal tender would not be of any significance. Incidentally, such notification would have to come from the government as only it is authorised to notify the discontinuance of any currency from being legal tender.

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