

# SLOW WITHDRAWAL: ON THE RBI AND THE 2,000 NOTE

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The [Reserve Bank of India's May 19 announcement that 2,000 banknotes](#) would be withdrawn from circulation, coming just over seven-and-a-half years since the economically deleterious demonetisation of 500 and 1,000 notes, has triggered a sense of déjà vu. While [Prime Minister Narendra Modi's decision in November 2016](#), to abruptly and completely [rescind the legal tender status](#) of the then available high value currency notes was ostensibly aimed at 'combatting black money and terror financing', the [RBI has asserted that the latest move](#) is in pursuance of its 'Clean Note Policy' and does not alter the legal tender status of the withdrawn notes. The central bank has, however, set a September 30 deadline for the exchange or deposit of the withdrawn currency, thereby triggering difficulties for the common individual to continue to use the note. Reports from across the country speak of consumers, including wage earners in sectors such as construction, struggling to pay for the purchase of medicines, petrol and other day-to-day essentials despite the notes continuing to remain legal tender. Given that the RBI has acknowledged that the printing of new 2,000 notes was stopped in 2018-19, the sudden decision to withdraw the notes in circulation has raised questions about the rationale. The RBI stated that about 89% of the 2,000 notes were issued between November 2016 and March 2017 "to meet the currency requirement of the economy in an expeditious manner" following demonetisation and that since then lower denominations had become adequately available, obviating the need for the 2,000 notes.

The central bank has also contended that the notes sought to be withdrawn were "at the end of their estimated life-span of 4-5 years", and that the value of these bills in circulation had declined to 3.62 lakh crore, or 10.8% of the total notes in circulation, as on March 31. A look at previous withdrawals of bills by the RBI shows, for instance, that starting in April 2014, all banknotes issued prior to 2005, or almost a decade earlier, were gradually withdrawn even as they continued to enjoy legal tender status. Even today, lower value bills issued at least as far back as 2013, and which are used far more frequently in everyday transactions, continue to remain in circulation, raising doubts about the RBI's 'clean note' reasoning. The RBI retains the right to issue or withdraw currency bills as it deems fit for the conduct of its policy mandate, but the lack of transparency now, and the administrative flip flops, do little to enhance trust in its "promise to pay the bearer" the note's face value.

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