

THE SHORT HISTORY OF A LARGE NOTE

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'The 2,000 note emerged as the centrepiece of demonetisation' | Photo Credit: AFP

The [withdrawal of the 2,000 note from circulation by the Reserve Bank of India \(RBI\)](#), which it announced on May 19, 2023, marks the end of a sordid chapter in the tragi-comic demonetisation saga. The presence of the 2,000 note in circulation was a constant reminder of the horrors of a “nation in the queue”. The note was also an object of ridicule, particularly due to bizarre claims at the time of its introduction, of a nano chip implanted in it. For the beleaguered government, the chapter on the 2,000 note had to be closed. With fresh printing of the note stopped after 2018-19, its eventual withdrawal was expected.

In 2016, the 2,000 note had emerged as the centrepiece of [demonetisation](#), a policy that was [illogical in conception and mismanaged in execution](#). The note had to be printed in larger numbers because the government had not checked whether it had enough notes to replace what was withdrawn. On [November 8, 2016](#), the total stock of notes of 2,000 — with the Reserve Bank of India (RBI) and currency chests — was 473.3 million pieces worth 94,660 crore. This amount constituted just 6% of the value of Specified Bank Notes (SBN) withdrawn. People were dying in the queues, and the realisation dawned that more 2,000 notes were required for faster remonetisation.

However, the RBI printed the new 2,000 notes in a new size. Normally, an automated teller machine (ATM) contained four cassettes; two cassettes held 500 notes and the other two cassettes held 1,000 and 100 notes. The new 2,000 note would not fit into any of these cassettes. Consequently, every one of the 2.2 lakh ATMs in India had to be “re-calibrated”. Re-calibration was a massive and complex exercise that required coordination across banks, ATM manufacturers, the National Payments Corporation of India, and switch operators. Engineers had to personally visit each ATM and spend between two to four hours with an ATM to complete the re-calibration.

The re-calibration crisis led to another ad hoc measure. Banks packed all the cassettes with available notes of 100. If all four cassettes of an ATM were filled with 100 notes, one ATM could store currency worth 2.1 lakh. The maximum withdrawal allowed per person per day was 2,000. In other words, one ATM could, at the maximum, meet the needs of only 105 people per day. But there were thousands queueing up in front of every ATM.

When the stock of 100 notes was quickly exhausted, banks demanded more from the RBI. The

RBI had no option but to supply old and soiled notes that banks had returned to the RBI earlier. Soiled notes often jammed the ATMs, which only added to the chaos.

The quality of the new 2,000 note was also a problem. Many notes were poorly printed: some notes had a shadow of Mahatma Gandhi's face in addition to the photograph of his face; some others had uneven borders; while others were of varying colour shades and sizes. In the villages, farmers were cheated by criminals as they were paid in fake 2,000 notes — they were just high resolution photocopies of the original note.

Finally, even when people managed to get a 2,000 note, most of them were unable to spend it; no one would offer change or a balance payment over transactions. In effect, the problem of a short supply of notes was exacerbated by the release of the 2,000 note.

All this while, the public was stuck with one basic question: if, as the government claimed, most illegal transactions and stocks of cash were in notes of 500 and 1,000, why did the government release new notes of 2,000? No credible explanation was ever provided. In fact, the RBI had suggested to the government, on October 7, 2014, that new notes of the denomination 5,000 and 10,000 be introduced in view of rising inflation and problems of managing currency logistics. However, the government declined this request on May 18, 2016 and advised the RBI to introduce new notes of 2,000.

As on March 31, 2023, the 2,000 note accounted for only 10.8% of all notes in circulation — down from 37.3% as on March 31, 2018. Its impact, then, is likely to be relatively small as compared to the withdrawal of more than 86% of notes in circulation in 2016.

Yet, what is undeniable is that India's monetary system has taken a serious credibility hit due to frequent changes and U-turns in currency management. The RBI Governor's statement that he cannot unambiguously predict the status of the 2,000 note after September 2023, has made a bad situation worse. Those looking for stability will see holding assets in the Indian rupee as a liability.

The highest denomination note in an economy serves as a store of value and is scarcely used in day-to-day transactions. But as per capita incomes and inflation rise, the highest denomination note sheds value and becomes a note for day-to-day transactions. Typically, the economy would then need a new higher denomination note to act as a store of value. This was why the RBI had requested the government to let it issue 5,000 and 10,000 notes in 2014.

Now, with the 2,000 note being withdrawn, can a growing economy have the 500 note — the next highest denomination — serve as a store of value? The cash-to-GDP ratio in India was 12% in 2015-16, but rose to 14.5% in 2020-21 and 13.3% in 2021-22. So, more cash is circulating, the value of notes is eroding with inflation, and real interest rates are falling. In such a context, can the RBI manage currency logistics efficiently without introducing a new 1,000 note, or even a 5,000 or 10,000 note? It may be difficult to escape such an eventuality.

Editorial | [Slow withdrawal: on the RBI and the 2,000 note](#)

Alternatively, would a digital currency, an e-rupee, be a perfect substitute for a larger denomination note? To be a stable and acceptable store of value, a digital currency must meet the properties, among others, of anonymity, general purpose use, and exchangeability. But the RBI has stated that anonymity can be assured only "to a certain degree" in e-rupee transactions. Other properties too are still evolving and in a stage of infancy. Thus, it is very unlikely that a digital currency will emerge as a new store of value anytime soon.

Let us just say, “picture abhi baki hai [It’s still not over yet”].

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