

## Impacts of withdrawal of 2000 rupee notes

### Why in news?

The Reserve Bank of India's (RBI's) decision to withdraw its highest denomination currency note from circulation is likely to improve banking system liquidity.

### What was the 'precision strike'?

- **Introduction** - The 2000 rupee note was introduced in *November 2016* to address the aftermath of demonetisation to meet the currency requirement of the economy in an expeditious manner.
- **Withdrawal** - The Reserve Bank of India (RBI) decided to withdraw 2,000 rupees notes from circulation as a part of its currency management.
- The 2000 rupee notes continues to be *legal tender*, as the withdrawal is not regarded as demonetisation.

*In value terms, the share of 2,000 rupee denomination notes (at Rs.3.62-lakh crore) was at 10.8% as on March 2023.*

- These notes can be exchanged at any bank branch or RBI offices up to September 30, 2023.
- Exchange of Rs.2,000 bank notes to notes of other denominations can be made up to a limit of Rs 20,000 at a time.
- To know more about this withdrawal, [click here](#).

### What are the impacts of 2000 rupee note withdrawal?

- The '[Clean note policy](#)' move tries to improve banking system liquidity, bringing down recently elevated short term rates.
- The deposit of 2000 rupee notes in bank can boost the repayment of loans, consumption and a possible GDP boost.
- **Liquidity** - About 2.5-3 trillion rupees of banking sector liquidity leaks out as currency in circulation each year.
- The Deposit of 2,000 rupee notes in Banks could result in a boost in bank deposits and its liquidity.

*ICICI Securities Primary Dealership estimates the liquidity surplus could increase to Rs.1.5-2 trillion.*

- **Deposit** - There is a surge in incremental C/D (Credit-Deposit) ratio, nearing pre-pandemic levels.
- The banks are ready to meet funding needs from diverse sectors giving boost to the economy.
- **e-RUPI push** - The absence of higher denomination notes gives rise to the usage of digital payments.
- The RBI's retail CBDC project ([e-RUPI](#)) is ready to hit the streets.
- The move will propel faster adoption of e-RUPI for merchant transactions, concurrent with physical fiat currency.
- **Short term rates** - If liquidity surplus improves sharply because of these deposits, the weighted average call rate could sustain below the repo rate for a short period of time.
- **G-secs** - Short-term interest rates for government securities, bank bulk deposits and corporate borrowings will also likely ease.
- **T-bills** - Due to the ease in interest rates, there will be a demand for Treasury bill auctions.
- **Bonds** - The eventual spill over to 3-year and 5-year bonds and yields of such notes could fall by up to 10 basis points.

## References

1. [Business Line - SBI Eco wrap report](#)
2. [Business Line - Withdrawal of Rs.2,000 note, a prudent step](#)
3. [Business Line - 2000 rupee note withdrawal will improve liquidity, ease short-term rates](#)

