EDITORIAL ANALYSIS
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Slow withdrawal

- Source: THE HINDU

Context:-The Reserve Bank of India's May 19 announcement that ₹2,000 banknotes would be withdrawn from circulation, coming just over seven-and-a-half years since the economically deleterious demonetisation of ₹500 and ₹1,000 notes, has triggered a sense of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.

Reasons for the withdrawal

With the fulfilment of the objective, the printing of Rs 2000 notes was stopped in 2018-19.

The RBI issued the majority of the Rs 2000 denomination notes prior to March 2017 – now at the end of their estimated lifespan of 4-5 years.

Therefore, in pursuance of the Clean Note Policy of the RBI, it has been decided to withdraw the Rs 2000 denomination banknotes from circulation.

Clean Note Policy

- The policy was **introduced in 1999** by the then RBI Governor: Bimal Jalan.
- It seeks to give the public good-quality currency notes and coins with better security features, while soiled notes are withdrawn out of circulation.
- Under the policy, the RBI had earlier decided to withdraw from circulation all banknotes issued prior to 2005 as they have fewer security features.

Legal Tender Status

- Despite the withdrawal, the Rs 2000 banknotes will retain their legal tender status. Individuals can continue to use them for transactions and receive them in payments. However, the RBI encourages people to deposit or exchange these notes at bank branches on or before September 30, 2023.

Exchanging and Depositing

- To facilitate the exchange and deposit of Rs 2000 banknotes, individuals are advised to approach bank branches. There is a limit of Rs 20,000 for exchanging these notes at a time, applicable to both account holders and non-account holders. Deposits into bank accounts can be made without restrictions, subject to compliance with applicable Know Your Customer (KYC) norms and regulatory requirements.

Effects of the withdrawal

Improve short term banking system liquidity:	As the withdrawn notes are deposited with banks, they will have excess liquidity, which will go towards: gov sec
Government securities:	Banks resort to parking excess funds in government securities.
Overnight money (Call money) market:	Generally the overnight interbank (call rate) is more than the repo-rate. But this may change with sudden increase in short term fund availability.
Decrease bond yield ie. increase bond prices:	Bond yield is nothing but the implicit rate at which the face value of the bond is discounted to get today's price.
Increased demand for Treasury bills:	The increased demand in auctions will result in higher prices for government bonds.
Reduce short term interest rates:	The rates for government bonds will see a reduction, firstly for the t-bills and then later possibly for 3 and 5 year bonds also.
Dip in cash:	Since all the 2000-rupee notes will come back in the banking system, we will see a reduction in cash in circulation and that will in turn help improve banking system liquidity.

Conclusion

- In conclusion, the Reserve Bank of India's decision to phase out 2000 rupee notes supports the objectives of the 'Clean Note Policy.' While the economy may experience temporary effects, the availability of smaller denominations and the growing digital transactions landscape are expected to mitigate disruptions caused by the reduction in cash circulation.