

RESERVE BANK OF INDIA'S BAN ON RS 2000 NOTES UNDER SCRUTINY:**RAJNEESH BHASKAR GUPTA V. RBI****Riddhi Chopra*****INTRODUCTION**

In a significant move, the Reserve Bank of India (RBI) has recently decided to withdraw the circulation of Rs 2,000 notes while affirming their status as legal tender. This decision communicated through a circular, has directed banks to cease issuing banknotes of the Rs 2,000 denomination immediately. The RBI has further outlined a September 30, 2023, deadline to exchange all existing Rs 2,000 currency notes. However, this decision by the RBI has not been without its share of controversy. A public interest litigation (PIL) has been filed in the esteemed Delhi High Court, challenging the RBI's move to withdraw the Rs 2,000 notes. The PIL seeks to scrutinize this decision's legality and potential implications, opening the debate on various aspects related to currency circulation and financial transactions. As we await the Supreme Court's verdict on this matter, the article delves into the various legal issues surrounding withdrawing Rs 2,000 notes.

THE ADVENT OF THE RS 2,000 NOTE: ADDRESSING CURRENCY REQUIREMENTS

Journal of Legal Research and Juridical Sciences

The introduction of the Rs 2,000 denomination banknote in November 2016 marked a significant development in India's currency landscape. Under Section 24(1) of the RBI Act, 1934, the Reserve Bank of India (RBI) has the authority to issue notes of any denomination not exceeding Rs 10,000. Under this provision, the RBI decided to introduce the Rs 2,000 note to meet the currency requirements of the economy promptly and efficiently. The decision to introduce the Rs 2,000 note came against a significant policy change. To combat black money, counterfeit currency, and corruption, the Indian government withdrew the legal tender status of all Rs 500 and Rs 1,000 banknotes in circulation. This demonetization moves aimed to promote a transition towards a more transparent and digital economy.

To bridge the gap caused by the withdrawal of the higher denomination banknotes, the RBI deemed it necessary to introduce the Rs 2,000 note. This new denomination would serve as a

*BA LLB, SECOND YEAR, UNIVERSITY OF ALLAHABAD.

temporary measure to meet the immediate currency requirements of the economy and ensure smooth transactions during the transitional period. The introduction of the Rs 2,000 note was intended to provide a practical solution to the challenges posed by the demonetization exercise.

It is important to note that introducing the Rs 2,000 note was intended as a short-term replacement for the earlier denominations. Instead, it was a strategic move to address the immediate currency needs of the economy and facilitate the transition process. The new denomination aimed to ensure adequate currency supply to support day-to-day transactions while mitigating the disruptions caused by the withdrawal of the higher denomination banknotes.

Thus, Rs 2,000 note was a direct response to the currency requirements of the economy following the withdrawal of the legal tender status of Rs 500 and Rs 1,000 banknotes. The introduction of this denomination under the authority of the RBI Act aimed to provide a temporary solution to meet the immediate currency demands during the transitional phase.

THE REASON BEHIND THE WITHDRAWAL OF RS 2000 NOTES BY THE RBI

The decision to withdraw the circulation of Rs 2000 notes by the Reserve Bank of India (RBI) can be attributed to several factors. Firstly, the introduction of the Rs 2000 note in November 2016 was intended to address the immediate currency requirement of the economy after the withdrawal of the legal tender of Rs 500 and Rs 1000 notes. Once this objective was fulfilled and an adequate supply of other denominations became available, the printing of Rs 2000 notes ceased in 2018-19.

Furthermore, most of the Rs 2000 denomination notes were issued before March 2017, and they have now reached the end of their estimated lifespan of 4-5 years. As these notes gradually wear out, it becomes necessary to withdraw them from circulation and replace them with new currency to maintain the integrity and usability of the currency system.

Additionally, the usage of Rs 2000 notes has declined over time. They are not commonly used for day-to-day transactions, and there is a sufficient stock of banknotes in other denominations to fulfill the currency requirements of the economy. It is practical to withdraw the Rs 2000

notes from circulation without causing significant disruptions to financial transactions.¹ RBI has attributed this decision to implementing the **clean note policy**. The clean note policy is a strategic initiative to ensure the availability of clean and good-quality banknotes in the economy.

WHAT IS THE CLEAN NOTE POLICY?

The Clean Note Policy is an initiative implemented by the Reserve Bank of India (RBI) to ensure that the banknotes in circulation remain clean, free from damage, and usable for financial transactions. The policy aims to maintain the integrity and quality of the currency, thereby promoting efficiency in the monetary system.

Under the provisions of the RBI Act 1934, Section 27, it is prohibited to soil, deface, disfigure, or destroy any banknote. The Clean Note Policy serves as a guideline for banks and financial institutions to adhere to these regulations and maintain the cleanliness and usability of banknotes.

The policy was introduced in 1996 and revised in 2003 to provide more comprehensive guidelines. As part of the implementation process, the RBI has instructed banks to follow a three-tier system for sorting banknotes. This system categorizes the banknotes into three groups:

- Soiled notes, which can be used for making paper pulp.
- Dirty notes, which can be used for producing low-quality paper products.
- Fit notes, which are suitable for producing high-quality paper products.²

By implementing the Clean Note Policy, the RBI aims to ensure that the banknotes in circulation are in good condition, facilitating their acceptance and usability in day-to-day transactions. This policy also contributes to maintaining public confidence in the currency system. It promotes the efficient functioning of the monetary framework.

¹ George Mathew, 'Why has the RBI withdrawn Rs 2,000 notes?' (*The Indian Express*, May 23, 2023) <<https://indianexpress.com/article/explained/explained-2000-rupee-notes-withdrawal-why-has-the-rbi-done-this-8619041/>> accessed 24 May 2023

² 'Clean Note Policy' (*unacademy*) <<https://unacademy.com/content/bank-exam/study-material/general-awareness/clean-note-policy/>> accessed 23 May 2023.

ADVANTAGES OF THE BAN ON 2000 RUPEE NOTES

1. **Curbing Black Money:** One of the significant advantages of banning 2000 rupee notes is its potential to curb the circulation of black money. By invalidating these high-denomination notes, often used for hoarding unaccounted wealth, the government aims to discourage illicit activities and encourage greater tax compliance. The ban is a deterrent for those generating and using black money, promoting a more transparent and accountable economy.

2. **Combating Counterfeit Currency:** The ban on 2000 rupee notes also serves to counter the counterfeit currency issue. Higher-denomination notes are more prone to counterfeiting due to their more significant value. By phasing out these notes, the government aims to reduce the circulation of counterfeit currency and protect the integrity of Indian money. This action enhances the trust and confidence of the public in the genuineness of the legal tender.³

3. **Promoting Digital Transactions:** Another advantage of the ban is its potential to promote digital transactions and a cashless economy. By limiting the availability of high-denomination cash, individuals are encouraged to explore alternative payment methods such as digital wallets, online banking, and mobile payments. This shift towards digital transactions enhances transparency, traceability, and accountability in financial transactions, reducing the dependence on cash and improving the overall efficiency of the payment ecosystem.

4. **Enhanced Financial Inclusion:** The ban on 2000 rupee notes can also advance financial inclusion. By promoting digital transactions and reducing the reliance on cash, individuals previously excluded from formal economic systems can now access various financial services more efficiently. Digital platforms provide opportunities for individuals to save, transact, and access credit, empowering them economically and fostering inclusive growth.

5. **Improved Monetary Policy Implementation:** The ban on high-denomination notes facilitates better implementation of monetary policies. It enables central banks, like the RBI, to have greater control over the money supply, inflation, and interest rates. By phasing out 2000 rupee notes, the central bank can more effectively manage monetary policy measures and respond to economic conditions, ensuring stability and fostering sustainable economic growth.

³ Admin, '2000 Rupee Note Ban In India – Reason, Exchange Rules, Limit, Last Date' (*BSEH Exam*, May 24, 2023) <https://bsehexam.org/2000-rupee-note-ban/#2000_Rupee_Note_Ban_Reason> accessed 25 May 2023

COMPARISON BETWEEN THE RS 2,000 NOTES AND THE 2016 DEMONETIZATION

While the recent withdrawal of Rs 2,000 notes from circulation may draw some comparisons to the 2016 demonetization process, there are significant differences between the two measures. In 2016, the Indian government declared all Rs 500 and Rs 1,000 currency notes invalid overnight, which accounted for approximately 86% of the country's cash supply. This sudden move, demonetization, caused widespread panic and led to long queues outside banks as people rushed to exchange their old notes before the deadline. In contrast, the ban on Rs 2,000 notes does not render them invalid. The notes retain their status as legal tender, and their withdrawal is aimed at managing the circulation of high-denomination currency. The intention behind the decision is to address concerns related to the "clean note policy" and ensure the availability of smaller denominations. As of March 31, 2023, Rs 2,000 notes constituted around 10.8% of the currency in circulation, making up a smaller proportion than the demonetized notes in 2016.

It is important to note that while some people may feel a sense of panic or draw parallels between the two events, the government has clarified that the recent move is not a repeat of demonetization. The focus is on managing the currency supply and maintaining the integrity of the banking system rather than rendering the Rs 2,000 notes invalid.⁴

THE LEGALITY OF THE BAN OF RS 2,000

The legality of the ban on Rs 2,000 notes has been challenged through a Public Interest Litigation (PIL) filed by advocate Rajneesh Bhaskar Gupta. The PIL argues that the Reserve Bank of India (RBI), as per the provisions of the RBI Act, does not have independent power to direct the discontinuance of banknotes of any denomination. It asserts that such power is vested only with the Central Government under section 24(2) of the RBI Act.

The PIL highlights that the impugned circular issued by the RBI does not mention the involvement or decision of the Central Government. It further criticizes the RBI for providing no other reason except the "Clean Note Policy" to justify the withdrawal of banknotes without adequately analyzing the potential impact on the public.

⁴ Gyanendra Keshri, 'DH Deciphers | All you need to know about Rs 2,000 note ban - amount limits, deadline and procedures' (*Deccan Herald*, May 23, 2023) <<https://www.deccanherald.com/business/economy-business/dh-deciphers-all-you-need-to-know-about-rs-2000-note-ban-amount-limits-deadline-and-procedures-1221184.html>> accessed 25 May 2023.

PIL emphasizes that the Clean Note Policy of the RBI typically applies to damaged, counterfeit, or soiled banknotes, which are then replaced with newly printed ones. However, in the present case, only the Rs 2,000 denomination notes are withdrawn within a specific deadline without a similar replacement note being circulated. The petitioner argues that the Rs 2,000 notes printed in 2016 and later are in good condition and equipped with solid security features. Therefore, they do not need to be withdrawn under the Clean Note Policy or other grounds. The PIL asserts that the policy only necessitates the withdrawal of damaged, counterfeit, or soiled notes rather than the stock of good banknotes.

The PIL raises significant legal questions regarding the authority of the RBI to enforce the ban on Rs 2,000 notes and the adequacy of the reasons provided for the decision. The outcome of the PIL will determine the legality and potential implications of the ban, shedding light on the RBI's powers and decision-making processes.⁵ The contention made in the PIL regarding the withdrawal of Rs 2,000 notes after a specific period of circulation raises concerns about the fairness and justification of the decision. The argument of the PIL suggests that the withdrawal timeline is unjust, arbitrary, and goes against public policy. On the other hand, the defense put forth by the Reserve Bank of India highlights that withdrawing Rs 2,000 notes is merely a "currency management exercise" and not equivalent to the previous demonetization process. The RBI's position, as presented by Senior Advocate Parag P. Tripathi in front of the Delhi High Court bench, comprising Chief Justice Satish Chandra Sharma and Justice Subramonium Prasad, emphasizes that the decision is aimed at effectively managing the currency system rather than implementing a broader demonetization policy.⁶

FORWARD

The court should carefully consider the contentions presented by both parties and make a well-informed decision that upholds the principles of justice and serves the public's best interests. The court must evaluate the RBI's justification that withdrawing Rs 2,000 notes is solely a "currency management exercise" and not akin to the previous demonetization process. This distinction should be critically analyzed to determine whether the RBI has acted within its legal

⁵ LIVELAW NEWS NETWORK, 'PIL In Delhi High Court Challenges RBI's Decision To Withdraw All Rs 2,000 Currency Notes From Circulation' (*Live Law*, 24 May 2023) <<https://www.livelaw.in/high-court/delhi-high-court/delhi-high-court-rbi-note-withdrawal-pil-challenge-22939>> accessed 25 May 2023.

⁶ Nupur Thapliyal, 'Not Demonetisation, Only Currency Management Exercise': RBI To Delhi High Court On Decision To Withdraw Rs 2,000 Currency Notes From Circulation' (*Live Law*, 26 May 2023) <<https://www.livelaw.in/amp/high-court/delhi-high-court/delhi-high-court-rbi-note-withdrawal-currency-management-229508>> accessed 26 May 2023.

authority and whether the decision aligns with public policy. It should consider the concerns raised regarding the availability of alternative denominations, the convenience of currency transactions, and any potential hardships that individuals may face due to the sudden withdrawal of a specific banknote. Ultimately, the court's decision should balance the RBI's currency management objectives and the protection of public interests. It should clarify the ban's legality and offer guidance on future currency management policies to ensure transparency, accountability, and the overall welfare of the citizens.

In conclusion, the PIL challenging the withdrawal of Rs 2,000 notes raises important legal and policy considerations. The court's decision will have far-reaching implications in the specific case and in shaping the framework for future currency management exercises. It is crucial that the court carefully weighs the arguments presented and provides a just and reasoned judgment that promotes the interests of the public and upholds the rule of law.

