

## **RBI to withdraw all currency notes, including Rs 500 and Rs 1000, issued before 2005**

THE RESERVE Bank on Wednesday announced it would withdraw after March 31 all currency notes issued before 2005, including those having higher denominations of Rs 500 and Rs 1,000.

To avoid panic, it said the notes will continue to be legal and the public has time to exchange them for new notes but should not be used for transactions from April 1.

“We expect people to turn up at their nearest bank branches to return the notes and take fresh ones,” said an RBI source.

According to the RBI, such pre-2005 notes are a small fraction of the total quantity in circulation. The RBI spokesperson said the move should not be conflated with demonetisation of high value notes.

“A demonetisation would have meant a sudden deadline and possibly demanding an explanation of the source of the money tendered at the banks. We are aiming for nothing of the sort,” the spokesperson said.

The only time the RBI had gone in for demonetisation was in 1978 when notes of Rs 1,000, Rs 5,000 and Rs 10,000 were withdrawn.

Bankers said the RBI has advised them to expand their currency chest operations to handle the rush, especially in non-metropolitan areas.

Currency experts have long demanded that the RBI should streamline the number of variations in its currency notes. The central bank too said Wednesday’s move is aimed at such rationalisation to ensure that later versions with enhanced security features remain in circulation.

The RBI said that after April 1, people will need to approach scheduled commercial banks to exchange these pre-2005 notes. Banks will exchange these notes until further communication, the central bank said in a statement.

“Public can easily identify the notes to be withdrawn as the notes issued before 2005 do not have on them the year of printing on the reverse side,” the RBI said. Appealing to the public “not to panic”, the central bank said “they are requested to actively co-operate in the withdrawal process.”

“This would mean that banks are required to exchange the notes for their customers as well as for non-customers. From July 01, 2014, however, to exchange more than 10 pieces of 500 and 1,000 rupee notes, non-customers will have to furnish proof of identity and residence to the bank branch in which she/he wants to exchange the notes,” the RBI said.

The withdrawal is also a part of the RBI's general emphasis to wean people away from using cash to cards or bank-based transactions. India has the highest amount of cash in circulation among the major economies of the world, excluding the USA.

There were 4,299 million pieces of 1,000 rupee notes valued at Rs 4,29,900 crore in circulation during 2013. This is 36.9 per cent of the total value of notes in circulation.

The number of 500 rupee notes were 10,719 million valued at Rs 5,35,900 crore, which is 46 per cent of the value of total notes in circulation. There were 25,168 million 10 rupee notes in circulation with a value of Rs 25,200 crore.

The value of 14,421 million 100 rupee notes was Rs 144,200 crore in 2013, according to the RBI.

According to the RBI, at 11.6 per cent, the growth in value of bank notes outpaced the growth in volume terms (6.0 per cent) in 2012-13. Notes of denominations of 500 and 1,000 together accounted for around 83 per cent of the total value of bank notes in circulation during the year.

Although the RBI has not specified the number of notes issued before 2005, it is thought to be substantial.

Around 14.1 billion pieces of soiled bank notes (20.4 per cent of bank notes in circulation) were processed and removed from circulation during 2012-13. The number of bank notes withdrawn from circulation and eventually disposed of at the Reserve Bank offices increased over the previous year by 358 million pieces.

During 2012-13, around 8.97 billion pieces were processed through 59 currency verification and processing systems and the remainder were disposed of under other modes.

*(Financial Express)*