

Govt advised RBI on note ban 1 day before Modi's announcement: Report

No discussions regarding demonetisation were held during RBI board's meetings in May, July, August

On November 7, 2015, a day ahead of Prime Minister Narendra Modi's demonetisation announcement, it was the central government which "advised" the Reserve Bank of India (RBI) to withdraw the legal tender status of old Rs 500 and Rs 1,000 notes and not the other way round, reported the Indian Express on Tuesday while citing a seven-page note submitted by the RBI to the Parliament's Department Related Committee of Finance.

Earlier, the government had claimed that it was the RBI which had suggested implementing demonetisation. Speaking in the Rajya Sabha on November 16, the Union Power Minister Piyush Goyal had said that the RBI runs the nation's monetary policy and that the demonetisation decision was taken by the RBI board. The RBI note, however, will only add to the many flip flops which have plagued the note ban saga so far.

"Government, on 7th November, 2016, advised the Reserve Bank that to mitigate the triple problems of counterfeiting, terrorist financing and black money, the Central Board of the Reserve Bank may consider withdrawal of the legal tender status of the notes in high denominations of Rs 500 and Rs 1,000," said the RBI, according to the national daily, in its note submitted on December 22 .

Further, the report quoted the note as saying: "It was advised in that letter that cash has been a facilitator of black money... Elimination of black money will eliminate the long shadow of the ghost economy and will be positive for India's growth outlook. They also observed that in the last five years, there has been an increase in circulation of Rs 500 and Rs 1,000 notes with an increasing incidence of counterfeiting of these notes."

According to the RBI note, which was accessed by the Indian Express, counterfeit currency and its impact on the economy and security of the nation were the key concerns of the government. Fake currency notes originating in neighbouring countries were being used for financing terrorism against India and the illicit drug trade, therefore, the government reasoned that withdrawing the legal tender notice of old notes was required.

There seems to have been an urgency within the government to see the old notes pushed out of the system, as the note revealed that the government advised the RBI to place this matter before the directors of its Central Board for consideration immediately.

And, it appears that the RBI understood the government's urgency. According to the news report, the very next day, hours ahead of the prime minister's address to the nation, RBI's Central Board met to deliberate on the "government's advice". The result of the meeting? On that day itself, the board decided to recommend the withdrawal of the legal tender status of the Rs 500 and Rs 1,000 notes to the central government. The rest is history as the government took the board's recommendation and decided to enact demonetisation, with the prime minister announcing it on the same evening.

Further, according to a separate Indian Express report, when the RBI's Central Board approved the issuing of the new Rs 2,000 notes back in May 2016, there were no discussions on any possible withdrawal of existing currency notes at that time.

The report also revealed that no discussions regarding demonetisation were held during the May 2016, July 7 and August 11 Board meetings.

(Business Standard)