



ANNEXURE A

003234

Minutes of the Five Hundred and Sixty First (561st) Meeting of the
Central Board of Directors of the Reserve Bank of India held
On Tuesday, November 8, 2016 at 5.30 P.M. at New Delhi

PRESENT

Urjit R. Patel : Chairman

Deputy Governors

R. Gandhi S.S. Mundra

Directors

Anjuly Chib Duggal Shaktikanta Das
Nachiket Mor Bharat N. Doshi
Sudhir Mankad

In Attendance

S.K. Maheshwari – CGM and Secretary



80792



003237

Resolved

that the proposal of the Deputy Governor recommending withdrawal of legal tender of banknotes in the denomination of Rs. 500 and Rs. 1000 of existing and any older series in circulation, is hereby considered and commended by the Central Board of Directors for forwarding the same to the Central Government.

Dated: December 15, 2016

Ujjwal

Chairman





**Minutes of the Five Hundred and Sixty First (561st) Meeting of the
Central Board of Directors of the Reserve Bank of India held
On Tuesday, November 8, 2016 at 5.30 P.M. at New Delhi**

PRESENT

Urjit R. Patel : Chairman

Deputy Governors

R. Gandhi S.S. Mundra

Directors

Anjuly Chib Duggal Shaktikanta Das
Nachiket Mor Bharat N. Doshi
Sudhir Mankad

In Attendance

S.K. Maheshwari – CGM and Secretary



003235

**Minutes of the Five Hundred and Sixty First (561st) Meeting of the
Central Board of Directors of the Reserve Bank of India held
On Tuesday, November 8, 2016 at 5.30 P.M. at New Delhi**

1. **Agenda** – The agenda of the meeting is at Annex.
2. **Signing of the minutes of the 560th meeting of the Central Board held on October 20, 2016 at Kanpur**

2.1 The minutes of the 560th meeting of the Central Board held on October 20, 2016 at Kanpur were signed by the Chairman.

3. **Grant of leave of absence to the Directors**

3.1 The Board considered the requests for leave of absence received from Shri Natarajan Chandrasekaran and

Resolved

that leave of absence from the meeting of the Central Board on November 8, 2016 at New Delhi be, and is hereby, granted to the Director Shri Natarajan Chandrasekaran.

4. **Memorandum from Department of Currency Management**

4.1 Deputy Governor's memorandum recommending withdrawal of legal tender status of banknotes in the denomination of Rs. 500 and Rs. 1,000 of existing and any older series in circulation, along with a copy of letter no. F.No.-10/03/2016-Cy.I dated November 7, 2016 received from Ministry of Finance, Government of India and Draft Scheme for Implementing the Withdrawal of legal Tender Character of Existing Rs. 500 and Rs. 1000 Bank Notes, was submitted to the Central Board for consideration and commending for forwarding the same to the Central Government in terms of Section 26(2) of the Reserve Bank of India Act, 1934.

4.2 The Board was informed that there has been a steep rise in the circulation of bank notes in the denomination of Rs. 500 and Rs. 1000 in the last five years. As per the Government letter placed before the Board, the economy has grown by 30 percent during 2011-12 to 2015-16 whereas the bank notes in the denomination of Rs. 500 and Rs. 1000



003236

have grown by 76.38 percent and 108.98 percent respectively over the same period. The White Paper on Black Money prepared by the Department of Revenue, Government of India mentions that cash has always been a facilitator of black money since transactions made in cash do not leave any audit trail. The White paper also quotes the estimate made by the World Bank in July, 2010 wherein the size of shadow economy for India has been estimated at 20.7 percent of GDP in 1999 and rising to 23.2 percent in 2007. Incidence of counterfeiting is also on the rise in these two denominations. The total quantum of counterfeit currency in the country is estimated to be around Rs.400 crore.

4.3 Following significant observations were made by the Directors:

- (i) It is a commendable measure but will have short term negative effect on the GDP for the current year.
- (ii) Exemption provided to medical stores can be extended to private medical stores as well.
- (iii) Arriving domestic long distance travelers who may be only carrying high denomination notes will be taken by surprise at railway stations/ airports for payment to taxi drivers and porter charges and hence put to hardship. It would also have adverse effect on tourists.
- (iv) The growth rate of economy mentioned is the real rate while the growth in currency in circulation is nominal. Adjusted for inflation, the difference may not be so stark. Hence, this argument does not adequately support the recommendation.
- (v) While any incidence of counterfeiting is a concern, Rs. 400 crore as a percentage of the total quantum of currency in circulation in the country is not very significant.
- (vi) Most of the black money is held not in the form of cash but in the form of real-sector assets such as gold or real-estate and that this move would not have a material impact on those assets.



003237

4.4 The Board was assured that the matter has been under discussion between the Central Government and RBI over the last six months during which most of these issues have been considered. Apart from the stated objectives, the proposed step also presents a big opportunity to take the process of financial inclusion and incentivizing use of electronic modes of payment forward as people see the benefits of bank accounts and electronic means of payment over use of cash.

4.5 The Board was assured that the Government will take mitigating measures to contain the use of cash.

4.6 The Board considered the memorandum and after detailed deliberations concluded that in larger public interest, the balance of advantage would lie in withdrawal of legal tender status of Rs. 500 and Rs. 1000 currency notes currently in circulation, and passed the following resolution:

Resolved

that the proposal of the Deputy Governor recommending withdrawal of legal tender of banknotes in the denomination of Rs. 500 and Rs. 1000 of existing and any older series in circulation, is hereby considered and commended by the Central Board of Directors for forwarding the same to the Central Government.

Dated: December 15, 2016

A handwritten signature in blue ink, appearing to read 'Ujjay Pratap Singh', written over a horizontal line.

Chairman



003238

**561st Central Board Meeting on Tuesday, November 8, 2016
at New Delhi – Agenda**

Sl. No.	Items
1	Signing of the minutes of the meeting of the Central Board held on Thursday, October 20, 2016 at Kanpur
2	Grant of leave of absence to Directors
3	Memorandum from Department of Currency Management