Demonetisation of 2016 – ten years after the ₹500 and ₹1,000 notes ceased to be legal tender

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Why in news: 8 November 2026 marked ten years since the Government of India announced, on 8 November 2016, that the ₹500 and ₹1,000 notes would cease to be legal tender from that midnight.

Key points

- The decision: PM Narendra Modi announced it in an address to the nation on the evening of 8 November 2016. A Gazette notification under Section 26(2) of the Reserve Bank of India Act, 1934, issued on the recommendation of the RBI's Central Board, ended the legal-tender character of the old ₹500 and ₹1,000 notes – the 'Specified Bank Notes' (SBNs); they could be deposited in bank accounts until 30 December 2016. The stated aims: black money, counterfeit notes and terror financing.
- Scale: SBNs worth ₹15.41 lakh crore were in circulation – about 86% of the currency by value. The RBI's Annual Report 2017–18 said SBNs worth ₹15.31 lakh crore (about 99.3%) had come back to the banking system.
- New notes and law: a ₹2,000 note (the first of that value) and a new-design ₹500 note of the Mahatma Gandhi (New) Series were issued. The Specified Bank Notes (Cessation of Liabilities) Act, 2017 ended the RBI's liability on the old notes. Printing of ₹2,000 notes stopped in 2018–19, and on 19 May 2023 the RBI announced their withdrawal from circulation – they remain legal tender.
- Earlier demonetisations: in January 1946 (₹1,000 and ₹10,000 notes) and in January 1978 under the High Denomination Bank Notes (Demonetisation) Act, 1978 (₹1,000, ₹5,000 and ₹10,000 notes), when Morarji Desai was Prime Minister.
- Court and economy: in Vivek Narayan Sharma v. Union of India (2 January 2023) a five-judge Constitution Bench of the Supreme Court upheld the 2016 decision by a 4:1 majority; Justice B.V. Nagarathna, dissenting, held that it should have been done through an Act of Parliament, not a notification. Economists study the episode for its effect on the cash-dependent informal sector and for the push it gave to digital payments such as UPI (launched by NPCI in 2016).

In the exam: TNPSC – the date, the notes withdrawn, the new ₹2,000 note and its 2023 withdrawal, the provision used (Section 26(2) of the RBI Act) and the earlier years 1946 and 1978; UPSC Prelims – legal tender and RBI Act provisions, the share of notes that came back, and the 2023 Supreme Court verdict.

Questions

1. The notification of 8 November 2016 that ended the legal-tender character of the old ₹500 and ₹1,000 notes was issued under

A. Section 26(2) of the Reserve Bank of India Act, 1934
B. Section 35A of the Banking Regulation Act, 1949
C. Article 292 of the Constitution
D. the Coinage Act, 2011

2. Consider the following statements:
1. India had demonetised high-denomination notes before 2016, in 1946 and in 1978.
2. A Constitution Bench of the Supreme Court upheld the 2016 demonetisation by a 4:1 majority in January 2023.
3. Less than 90% of the value of the demonetised notes came back to the banking system.
Which of the statements given above is/are correct?

A. 1 only
B. 1 and 2 only
C. 2 and 3 only
D. 1, 2 and 3

Answers with explanations

1. **A) Section 26(2) of the Reserve Bank of India Act, 1934** – Section 26(2) of the RBI Act lets the Central Government, on the recommendation of the RBI's Central Board, declare that any series of bank notes shall cease to be legal tender. Section 35A of the Banking Regulation Act is about RBI directions to banks, Article 292 about borrowing by the Union, and the Coinage Act about coins.

2. **B) 1 and 2 only** – Statement 3 is wrong: about 99.3% – ₹15.31 lakh crore of the ₹15.41 lakh crore in Specified Bank Notes – came back (RBI Annual Report 2017–18).

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