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Special Notes

Reserve Bank's Clean Note Policy: An Overview

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Reserve Bank is charged with the responsibility of providing adequate supply of currency for facilitating transactions of the Government, banks and the public. Over the years, with the expansion of the economic activities and growth, the volume of currency in circulation has multiplied by many times. Of late, it was observed that many of the notes in circulation were soiled and mutilated and these were no longer considered as a decent medium of exchange. Such notes were also not found conducive for introducing new technology such as dispensing machines, counting machines, automatic teller machines (ATM), *etc.* to improve customer service. To overcome this problem, the Reserve Bank took a number of initiatives to increase the supply of clean notes on the one hand and suck out the soiled and mutilated notes from the circulation on the other, known as 'Clean Note Policy'. This note attempts to analyse how far these measures have been effective in improving the then prevailing situation and providing a new direction to the currency management.

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Introduction

The Reserve Bank of India is the sole authority for the issue of currency in India. Although one-rupee notes/coins and subsidiary coins, the magnitude of which is relatively small, are issued by the Government of India, these are put into circulation only through the Reserve Bank. This authority is given to the Reserve Bank because it is charged with the responsibility of providing adequate supply of currency for facilitating transactions of the Government and the exchange and remittance requirements of banks and the public. With the expansion of the economic activities and growth, the volume of currency in circulation has multiplied by more than 200 times during last 50 years. Of late, it was observed that many of the notes in circulation were soiled and mutilated and these were no more

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considered as a decent medium of exchange. No body wanted to accept these notes, however, if somebody acquired these notes while transacting, they wanted to get rid of them at the first available opportunity. With the result, these soiled and mutilated notes were effectively driving out the good notes out of circulation, as if the Gresham's Law was in operation. These were also not at all conducive for use of new technology such as dispensing machines, counting machines, automatic teller machines (ATM), *etc.* for improving banks' efficiency and customer service. To overcome this problem, the Reserve Bank of India took a number of initiatives to increase the supply of clean notes on the one hand and suck out the soiled and mutilated notes from the circulation on the other, known as 'Clean Note Policy'. This note attempts to analyse how far these measures have been effective in improving the then prevailing situation and providing a new direction to the currency management.

The note has been organised into three sections. Section I explains the main features of currency management in India in a historical perspective, while Section II focuses on various measures taken under 'Clean Note Policy' and their impact on currency management. Section III contains the concluding observations.

Section I

Currency Management in India

Up to March 31, 1935, the regulation of currency was carried out by the Central Government departmentally through the Controller of Currency under the Paper Currency Act (XIX of 1861). On its establishment, the Reserve Bank took over the management of currency in India under Section 3 of the Reserve Bank of India Act, 1934 (RBI, 1970). Accordingly, the liability of the Government of India notes in circulation on that date and assets equal to that amount of liability were transferred to the Issue Department of the Bank. Under Section 22 of the Act, the Bank has the sole right to issue currency notes (referred to as 'bank notes' in the Act in order to distinguish them from the notes issued by the Government) in India. Currency notes are legal tender at any place in India in payment or on account, without limit (RBI, 1983).

In India, currency forms a significant part of the money supply, even though its importance has been declining over the years due to the increasing monetisation of the economy and the spread of banking facilities. Currency is an important economic indicator of economic activity, especially in rural India and its behavioural pattern throws up many interesting insights. Cash demand tends to increase in the beginning of the month when salaries are spent and tapers off at the end of the month when consumers spending returns to business accounts. Similarly, currency seasonality, by and large, mirrors the seasonality in economic activity. The variance of the ratio of currency to gross domestic product (GDP) at current market prices, an indicator of the role of currency in economic activity, has stabilised since the mid-eighties (RBI, 2001). Since currency constitutes the base for the expansion of money supply, regulation of currency is also an important element of monetary control.

The RBI Act permits the issue of notes in the denominations of rupees two, five, ten, twenty, fifty, one hundred, five hundred, one thousand, five thousand and ten thousand or such other denominations not exceeding rupees ten thousand as the Central Government may specify, on the recommendation of the Central Board of the Bank. At present, all denominations except rupees two, five thousand and ten thousand are being issued. Of the various denominations, one hundred rupee notes account for nearly 41 per cent of the total value of currency issued, followed by five hundred rupee notes (about 28 per cent) and fifty rupee notes (about 15 per cent). The value of lower denominations is too little though their volume is enormous. Rupees one, two and five notes account for just one per cent of the total value of currency issued, while they account for about 15 per cent of the total volume. Similarly, rupees ten notes account for only 3 per cent of the total value, while their share in total volume is 25 per cent (Kamesam, 2003). The design, form and material of the notes have to be approved by the Central Government, after consideration of the recommendations made by the Central Board of the Bank. The Bank takes special care in the choice of the size, colour and design of the notes to enable the public to distinguish the different denominations easily.

The Central Government may deprive currency notes of any denomination of their legal tender character or direct the non-issue of any denomination, on recommendation of the Central Board of the Bank. In this connection, special mention may be made of demonetisation of high denomination notes by the Government of India on two occasions. On January 12, 1946, with the object of checking unaccounted money and tax evasion, Government demonetised notes of rupees five hundred, one thousand and ten thousand. The Bank reintroduced from April 1, 1954, notes of rupees one thousand and ten thousand. Five thousand rupee notes were also introduced from that date. It was again after a lapse of more than 30 years that high denomination notes (rupees one thousand, five thousand and ten thousand) were demonetised on January 16, 1978, on the ground that the availability of these notes facilitated the illicit transfer of money for financing transactions, which were harmful to the national economy or for illegal purposes (RBI, 1983). However, the notes of rupees five hundred and rupees one thousand have since been reintroduced.

The volume of note issue (excluding one rupee coin) grew from Rs. 186 crore in 1938 to Rs. 1,114 crore in 1952 and further to Rs. 2,75,096 crore at end-March 2003 (RBI, 1970, 1983 and 2003). Thus, the volume of note issue multiplied by over 200 times during the last 50 years. While various reasons could be attributed to explain the phenomenal growth in note issue, certain factors stand out, namely, large expansion of the economy requiring greater use of cash, continuing public preference for currency notes as a medium of exchange and growth of population. All transactions relating to issue of currency notes are separated, for accounting purposes, in the Issue Department of the Bank. The Issue Department is liable for the aggregate value of the currency notes of the Government of India and currency notes of the Reserve Bank in circulation from time to time and it maintains eligible assets for equivalent value. The assets, which form the backing for the note issue, are kept wholly distinct from those of the Banking Department. The Issue Department will issue currency notes only in exchange for currency notes of other denominations or against such assets, which are statutorily acceptable for being held as part of the reserve.

In practice, the distinction between the Issue Department and the Banking Department has little economic significance since there are frequent shifts between the assets of the two departments. However, not all the assets of the Banking Department are eligible for being held in the Issue Department (*e.g.*, State Government securities, small coins), an arrangement designed to provide some check on the issue of currency. The Issue Department is also responsible for getting its periodical requirements of notes printed from the currency printing presses of the Government of India, distribution of currency among the public and withdrawal of unserviceable notes and coins from circulation.

The mechanism of putting currency into circulation and its withdrawal from circulation (*i.e.*, expansion and contraction of currency, respectively) is effected through the Banking Department. Thus, if a scheduled bank wants to withdraw Rs. one crore from its deposits with the Reserve Bank, the transaction is handled by the Banking Department, which gives currency in the denominations required by the bank, debiting the bank account. For this purpose, the Banking Department holds stock of currency, which it replenishes as and when necessary from the Issue Department against transfer of eligible assets. Likewise, if a bank tenders cash to the Reserve Bank for its account, the cash is received by the Banking Department. If the holding currency in the Banking Department becomes surplus to the normal requirements of the Department, the surplus is returned to the Issue Department in exchange for equivalent assets. In respect of the exchange of currency notes for rupee coins and rupee coins for notes and exchange of notes of one denomination for another, the Issue Department deals directly with the public and not through the Banking Department.

Reserve Bank notes have a cent per cent cover in approved assets. There is no ceiling on the amount of notes that can be issued by the Bank at any time. According to Section 33 of the RBI Act, the assets of the Issue Department against which currency notes are issued have to consist of gold coin and bullion, foreign securities, rupee coin, Government of India rupee securities of any maturity and bills of exchange and promissory notes payable in India which are eligible for purchase by the Bank. In practice, such bills and promissory notes have not figured as assets so far due to the lack of proper bill market.

The original RBI Act prescribed a proportional reserve system. Under this system, the Bank was required to keep 40 per cent of assets in the form of gold coin, gold bullion and foreign securities, subject to the condition that the value of gold (coin and bullion) should not be less than Rs. 40 crore in value. This system was a relic of the old international gold exchange standard and it placed rigid limitations on the central bank. In India, the rapid growth in economic activity under the impetus of the development plans and the expansion in the monetised sector of the economy called for a large expansion of currency. The financing of the plans also necessitated heavy drafts on the foreign reserves held by the Bank. The Reserve Bank of India (Amendment) Act, 1956, sought to provide for the needed flexibility in note issue, while maintaining a specified quantity of reserves in gold and foreign securities. Under the new system, known as minimum reserve system, the Reserve Bank is required to ensure that in the different items of assets kept as backing, the value of gold coin and bullion should not be less than the value of Rs. 115 crore. The other minimum condition, which can be dispensed with during unforeseen contingencies, is that there should be foreign securities of the minimum value of Rs. 85 crore, so that together with gold (coin and bullion) the minimum value of these assets is Rs. 200 crore (RBI, 1983). The new system seems to provide for gold of a higher value, but this did not imply need for additional gold. It is because the value of the existing gold was revised upward in accordance with the new higher price.

The Bank has made elaborate arrangements for the discharge of its currency functions. It has set up a full-fledged ‘Department of Currency Management’ to streamline various functions related to currency management. The Department addresses policy and operational issues relating to designing of banknotes, forecasting demand for notes and coins, ensuring smooth distribution of banknotes and coins throughout the country and retrieval of unfit notes and uncurrent coins from circulation, ensuring the integrity of banknotes, administering the RBI

(Note Refund) Rules, reviewing/ rationalising the work systems/ procedures at the Issue Offices on an ongoing basis and dissemination of information on currency related matters to the general public. The Department makes estimates of currency for incremental needs, replacement needs and reserve needs through statistical analysis and long-term forecasts and accordingly allocates printing/ minting of currency notes/ coins among various Presses/ Mints. Delivery schedules of currency notes/ coins to various Issue Offices of the Bank are also decided in advance. The distribution of currency to the Government, banks and the public is undertaken through offices of the Issue Department. At present, the Bank maintains 19 offices of the Issue Department at Ahmedabad, Bangalore, Belapur, Bhopal, Bhubaneshwar, Chandigarh, Chennai, Guwahati, Hyderabad, Jaipur, Jammu, Kanpur, Kolkata, Lucknow, Mumbai, Nagpur, New Delhi, Patna and Thiruvananthapuram. The currency requirements at other centers are met through 4,422 currency chests maintained by the Bank with (i) its agencies, namely the branches of the State Bank of India, its associates and nationalised banks, and (ii) Government treasuries and sub-treasuries. Currency chests are receptacles in which stocks of new and reissuable notes are stored along with rupee coins. The balances in the chests are the property of the Reserve Bank. Besides, 3,784 bank branches spread throughout the country have also been authorised to establish small coin depots to stock small coins and distribute them into other bank branches in the area of their operations (Kamesam, 2003).

The Reserve Bank's responsibility is not only to put currency into, or withdraw it from circulation, but also to exchange notes and coins into such other denominations of notes and/or coins as may be required by the public. Section 27 of the RBI Act imposes an obligation on the Bank to maintain the quality of note issue by stipulating that the Bank shall not reissue currency notes, which are torn, defaced or excessively spoiled. Besides the Reserve Bank, public sector banks accept soiled notes and slightly mutilated notes in payment of dues and afford free facilities to their customers and other persons for exchanging such notes. The value of any lost, stolen, imperfect or mutilated note of the Government of India or the Reserve Bank cannot be claimed by any person as of right. However, with a view to mitigating the hardship to the public in genuine cases, the

Bank, as a matter of grace, arranges to make refund of the value of such notes in accordance with the rules called the Reserve Bank of India (Note Refund) Rules, which have been framed for this purpose in terms of the proviso to Section 28 of the RBI Act.

The Bank, for the first time, issued the RBI (Note Refund) Rules in 1935 based on the rules of the Paper Currency Department as they then stood. In 1975, the Bank issued a new set of rules known as RBI (Note Refund) Rules, 1975 in order to provide powers to examine and dispose of the claims to be delegated to a number of officers at various levels. The element of discretion, which was previously vested in the currency officers, as prescribed officers entitled to adjudicate claims in respect of notes which were not exchangeable over the counters, were abolished and replaced by precisely formulated rules intended to test and establish the genuineness of the notes and the claims in relation thereto. The defective and mutilated notes tendered for adjudication were classified with reference to the degree of mutilation and the difficulties likely to be experienced in the examination and disposal of the claims. The mission behind the initiatives was to facilitate the expeditious settlement of all genuine claims (RBI, 1975).

Notes and coins returned from circulation are deposited at the issue offices of the Reserve Bank. The Bank then separates the notes that are fit for reissue and those which are not fit for reissue. The notes which are fit for reissue, are sent back into the circulation and which are not fit for reissue are, after processing, shredded. The coins withdrawn are sent for melting. The replacement of notes returning from circulation is a continuous process and is carried out to keep the notes in circulation in as clean a condition as possible. The pursuit of this on-going process can aptly be described as the Bank's Clean Note Policy.

Section II

The Bank's Clean Note Policy

With a view to facilitating the management and servicing of a very large and growing volume of currency notes, the Reserve Bank took a number of steps since 1975. A new metallic rupee was issued on 1st April 1975 to supplement the availability and stocks of one-rupee notes. Subsequently, rupees two and five notes were also coinised. The installed capacity for printing of fresh notes and the production of bank note paper was substantially increased. The existing currency note printing presses at Nasik and Dewas and the mints owned by the Government of India at Hyderabad, Kolkata, Mumbai and Noida are being modernised. Two new printing presses with the state-of-art technology have been set up at Mysore and Salboni under the aegis of the Bharatiya Reserve Bank Note Mudran Ltd., a wholly owned subsidiary of the Reserve Bank. To bridge the demand-supply gap, the Government, as a one-time measure even allowed the import of 3.6 billion pieces of notes in 1997-98. The production capacity of the four Government Mints is being augmented. The Government of India has also been importing rupee coins to supplement the quantity of coins supplied by the four mints. So far, more than two billion rupee coins have been imported. Thus, by 1999, enough printing capacity was installed to take care of the current and foreseeable future requirements.

Simultaneously, the number of note examination sections and staff employed for the examination of soiled and mutilated notes were increased with a view to enabling the Bank to retire and replace excessively soiled, defective and mutilated notes as expeditiously as possible. In spite of these efforts, the claims in respect of soiled and mutilated notes were rising by leaps and bounds and the quality of notes in circulation was fast deteriorating. It was no more possible to handle these claims manually and maintain the quality of notes in circulation at the desired level by using the prevailing methods and techniques of currency management. Hence it was no more a choice, but an imperative to bring the methods and techniques of currency management in consonance with new technology and international best practices.

Accordingly, Dr. Bimal Jalan, the then Governor, Reserve Bank of India announced the Bank's 'Clean Note Policy' in January 1999. For effective execution of 'Clean Note Policy', withdrawing soiled and mutilated notes from circulation is as important as pumping fresh notes into circulation. For the achievement of the twin-goals, the Reserve Bank has, over the past four years, introduced various changes in the systems and procedures related to currency management. The steps include: mechanisation of the currency verification and processing as also shredding and briquetting for destruction of soiled and mutilated notes. The Bank has installed a number of Currency Verification and Processing System (CVPS) at its various Issue Offices to supplement the manual processing of notes.

The CVPS is an electronic-mechanical device designed for examination, authentication, counting, sorting and on-line destruction of the notes, which are unfit for further circulation. The system is capable of sorting the notes on the basis of denomination, design and level of soilage. Generally, the system sorts the notes into fit, unfit, reject and suspect categories. The unfit notes are shredded online. The fit notes are retrieved from the system in packets of 100 pieces. These packets are banded by the system and information such as denomination, date of processing, name of office and operator code is printed on the label to facilitate easy identification. The notes in the reject and suspect categories are received in different stackers since these have to be inspected manually for the presence of counterfeit or different denomination notes. The CVPS ensures uniformity and consistency in the examination of notes on the basis of soilage levels and other parameters and classification thereof into re-issuable and non-issuable. The element of subjectivity, which characterises manual examination of notes, is thus eliminated through CVPS (RBI, 2002).

Each CVPS is capable of processing 50,000 – 60,000 notes per hour. It counts, examines the genuineness of notes, sorts notes into fit and unfit and shreds the unfit notes on-line. The shreds are on-line transported to a separate Shredding and Briquetting Systems (SBS) where they are compressed into briquettes of small size. The system is environment-friendly, as it does not create pollution that was created by burning of notes in the past. The briquettes can be used as residual fuel in industrial furnaces. They can even be used for land fillings or for making items for use at office and home and paperboard. The SBS are capable of destroying notes off-line and briquette the shreds on a stand-alone basis. They can also make briquettes online out of shreds generated in the CVPS units. So far, 48 CVPS and 27 SBS at all the Issue Offices have been installed (Kamesam, 2003).

Apart from weeding out soiled and mutilated notes from circulation, the Reserve Bank has also taken measures to supply adequate quantities of fresh notes and to prevent excessive soilage of the existing currency notes. As on April 1, 2003, the total annual capacity of printing presses is 18 billion pieces as against the current requirement of about 12 billion pieces. This capacity can be raised up to 28 billion pieces with two shifts. Similarly, the total annual minting capacity is 4,700 million pieces as against the current requirement of about 4,000 million pieces. Thus, the installed capacity of the presses and mints is adequate to take care of not only current requirements, but also of foreseeable future requirements. Further to ensure supply of clean notes and coins among the public, mobile vans are periodically sent at city centers and in various parts of towns. Distribution of clean notes and coins has also been arranged through milk co-operatives in the State of Gujarat and through Post Offices in rural areas in the State of Maharashtra. Coin dispensing machines have been installed at public places and bank branches. Issue of notes of lower denominations to bulk users by the Bank is compulsorily accompanied by issue of some part in small coins.

The number of counterfeit notes detected at the Reserve Bank's regional offices and branches of commercial banks has been on the rise in recent years. However, the value of forged notes detected, as a proportion to the total value of notes in circulation has remained miniscule. In order to mitigate the difficulties faced by the public on account of counterfeit notes, the Bank has undertaken several measures to enhance public awareness. A film on security features of Rs.100 and Rs.500 denomination notes was telecast on Doordarshan and other TV channels. Banks were advised to establish 'Forged Note Vigilance Cells' at their Head Offices for dissemination, monitoring and implementation of the Reserve Bank's instructions on forged notes. The Bank has also initiated a number of steps to track forgery on the one hand and improve the quality of notes on the other. The substance of bank note paper has been increased and a melamine resin has been incorporated in the paper to increase its wet strength. The new Mahatma Gandhi series of notes with special security measures have been introduced since 1996. Although the predominant reason for new security features is to make counterfeiting difficult, they also assume importance in the context of the mechanised cash processing activities by high-speed CVPS. The success of these systems in achieving the authenticity and rated capacity depends greatly on the notes having machine-readable security features. The notes in the Ashoka Pillar Series, *i.e.*, Ashoka Pillar in watermark window, are being phased out from circulation, as they do not contain adequate anti-counterfeit security features as compared with the Mahatma Gandhi series notes. These features are windowed security thread, latent denominational image, micro printing, registration mark and raised identification mark for identification of a denomination by the visually impaired, among others. Moreover, portraits of human beings have been recognised as a strong security feature on bank notes all over the world. The watermark with a human face is a unique and an inimitable feature which provides the desired light and shade effects. In particular, a human face brings into focus the shine/ glean in the eyes. The portraits involve deep engravings with very minute details and are difficult to counterfeit. The choice of the personality from the security point of view should be such that the face should be expressive and should have lots of lines and folds so that there is an ample scope of engravings of different depths, which would be difficult for counterfeits. The Government and the Reserve Bank, therefore, introduced a portrait of Mahatma Gandhi on banknotes as well as in the watermark window (RBI, 2003). The notes on which the above features are not available can be suspected as forged notes and detected on examination. Thus, these features are very helpful in detecting the forged notes.

A major factor for soilage and mutilation of notes was stapling and multi stapling of notes/ note packets. The Reserve Bank and the Government of Inida were receiving a large number of complaints against stapling of notes. A study conducted by the Reserve Bank indicated that no other country followed the practice of stapling note packets. The Government of India and the Reserve Bank, therefore, decided to do away with the practice of stapling of note. The practice of non-stapling of fresh notes was initiated in 1996 and now the fresh notes supplied by the note printing presses are totally in unstapled condition. Moreover, non-stapling of notes facilitates proper sorting of notes at bank branches by using table-top sorting machines, as also, mechanised processing at the CVPS. The note packets are now secured by paper/ polythene bands and both banks and public need to accept the change to paper/ polythene bands and move away from staple pins. Hence, towards implementation of 'Clean Note Policy', the Reserve Bank has taken into confidence the banks, the trade and the public at large. It has made mandatory on the banks to discontinue the practice of stapling the currency note packets. It has issued a public interest directive to all banks under Section 35A of the Banking Regulation Act, 1949 in November 2002 instructing them:

(i) Not to staple bank notes,

(ii) To tender soiled notes to the Reserve Bank in unstapled condition,

(iii) To use bands instead of staple pins,

(iv) To issue only clean notes to members of public,

(v) To open select currency chest branches on Sundays to provide exchange facility to members of public all over the country, and

(vi) To provide unrestricted facility for exchange of soiled and mutilated notes to members of public.

The Reserve Bank has also urged members of the public not to write on the currency notes and deface them. Interestingly, the Bank occasionally also arranges to collect soiled and mutilated notes from the public by going to market places. As a result, the number of public complaints in respect of soiled notes in circulation has considerably declined and availability of fresh notes has significantly improved.

Some complaints of restrictive practices were also being received according to which some currency chest branches in the rural and semi-urban areas do not accept lower denomination notes. To mitigate the position, the Reserve Bank has given specific monthly targets for distribution of coins to these currency chests. The Bank monitors these targets from the feedback reports. Further on experimental basis, the Reserve Bank had requested banks between September and November 2002 to open one currency chest branch on one Sunday in a month at selected centers to exclusively provide currency exchange and distribution of small coins and suck out the soiled and mutilated notes. The reports received from the banks show that this experiment has received tremendous response from the public. It has, therefore, been decided that banks should run this scheme on a permanent basis with wholehearted participation. The choice of the center and the Sunday in the month has been left to the individual bank to decide.

Efforts are underway to design, develop and implement an 'Integrated Computerised Currency Operations and Management System'in the Reserve Bank. Computerisation will cover issue accounting, resource planning and distribution of currency, cash department operations, note exchange counters in Issue Department, claims section, currency chest reporting and management information systems in the Regional and Central Offices. The development of the application software is being outsourced. Furthermore, the Reserve Bank has envisaged the establishment of a Monetary Museum in Mumbai with display and archival facilities, which would house contemporary and ancient monetary artifacts and coins capturing the history of currency in India. The website for the proposed Monetary Museum has now been made a part of the Reserve Bank website (RBI, 2003).

For the success of the 'Clean Note Policy', high degree of coordination is necessary between chest branches and non-chest branches and the currency chest branches should mechanise their operations by installing smaller desk top versions in addition to banding machines so that members of public receive good staple free notes and the Reserve Bank receives staple free soiled notes ready for processing and destruction. The Regional Directors of the Reserve Bank could also be contacted for proper coordination of remittances of notes and coins. It is hoped that banks will extend full co-operation to the Reserve Bank in delivery of its Clean Note Policy and it may not have to think of any regulatory intervention for this purpose.

Section III

Conclusion

As mentioned earlier, Section 27 of the RBI Act, 1934 imposes an obligation on the Bank to maintain the quality of note issue. Accordingly, the Bank framed and issued rules called the 'RBI (Note Refund) Rules' in 1935 for the first time. In 1975, a new set of rules known as the 'RBI (Note Refund) Rules, 1975 was issued in order to abolish the element of discretion, which was previously vested in the currency officers and replace the same with precisely formulated rules intended to test and establish the genuineness of the notes. Over the years with large and growing volume of currency, the number of note examination sections and staff employed therein were increased substantially with a view to enable the Bank to replace soiled and mutilated notes as expeditiously as possible. Despite these efforts, the number of claims against soiled and mutilated notes went on increasing and the quality of notes in circulation was fast deteriorating. It was no longer possible to maintain the quality of notes in circulation by the prevailing methods and techniques of currency management. Hence to tackle this problem on an urgent basis, the Bank came out with the 'Clean Note Policy' in January 1999.

As a follow up of the 'Clean Note Policy' of the Bank, the supply of fresh notes and coins has increased adequately with the setting up of new printing presses and modernisation of the existing printing presses and mints. Periodically resorting to import of notes and coins and temporary printing of rupees 5 notes has improved the supply position further. The quality of notes has also improved considerably due to improved quality of printing paper and addition of other distinctive features in the new series. The notes are now less susceptible to forgery. Simultaneously, currency verification and processing systems have stabilised in operation taking care of processing and briquetting of soiled and mutilated notes. Most of the soiled and mutilated notes, which were in circulation earlier, have now been withdrawn. Bank's instructions against stapling of notes and writing thereon also had the desired impact. Thus the Bank's 'Clean Note Policy' is showing good results and being implemented successfully.

Nonetheless, there is no place for complacency. There are challenges of adjusting the volume of various denominations of currency notes and coins in accordance with the changing requirements of the growing economy, their distribution across various states and regions throughout the country amidst increasing security considerations, safeguarding the currency notes, particularly high denomination notes from concerted onslaught of forgery and continuously weeding out the soiled and mutilated notes from circulation. To meet these challenges effectively, first of all the volume of currency notes needs to be contained within sustainable levels. This can be achieved by shift in preference from lower denomination notes to higher denomination notes, expanding banking facilities throughout the country, particularly in rural areas and inculcating banking habits among the masses. Coinising rupees ten notes could also be useful in containing the volume of currency notes. At present, rupees ten notes constitute about 25 per cent of the total volume, while they account for just 3 per cent of the total value of currency notes issued. Secondly, there is need for continuing the process of upgradation of systems, procedures, methods and techniques of currency management in line with the best international practices so that clean notes on an ongoing basis could replace the soiled and mutilated notes. In this regard, early implementation of 'Integrated Computerised Currency Operations and Management System' has become imperative. Thirdly, there is a need to educate the public against stapling, multi-stapling and any type of writing on notes through mass media, awareness campaigns and legally prohibiting these practices. Finally, there is a need for adding distinctive features such as new design, form, security thread, identification mark, printing image, special ink, *etc*. in currency notes in order to distinguish them from forged notes. These distinctive features should be innovated through ongoing research and development efforts. Simultaneously, there is a need for enhancing public awareness about these distinctive security features in order to make it easier for the public to identify counterfeit notes. In effect, there is a need for all concerned to make concerted efforts to make the 'Bank's Clean Note Policy' a success.

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