

# VIII

## CURRENCY MANAGEMENT

*Demand for banknotes and coins followed the rising trend as in the past years. The Reserve Bank continued to focus on strengthening currency exchange facility for the public at bank branches closer to them. The scheme of incentives and penalties was revised upwards to improve customer service by banks as also by expanding the activities covered with emphasis on technological support in the issue and distribution of currency. The Reserve Bank constantly endeavours to maintain the confidence of the public through supply of good quality banknotes and coins as also by enlarging the distribution network to ensure last mile connectivity.*

VIII.1 Currency management being a core function of the central banks, commands a high degree of visibility as people often tend to judge their efficacy from the ease of continuous access to and quality of banknotes in their possession. Issue of banknotes and management of currency is one of the core functions of the Reserve Bank of India. Section 22 of the Reserve Bank of India Act, 1934, confers upon the Reserve Bank the sole right to issue banknotes. Rupee coins (₹1, 2, 5 and 10) and 50 paise coins, though issued by the Government of India, are put into circulation only through the Reserve Bank. Currency management involves planning and designing of currency and ensuring its integrity and availability by issuing/withdrawing it in appropriate quantities with a view to maintaining the standard of its quality.

### BANKNOTES IN CIRCULATION

VIII.2 Demand for banknotes and coins continued to rise in 2013-14 despite the increased use of technology driven non-cash modes of payment during the recent period. At the close of March 2014, the value of the banknotes in circulation stood at ₹12,829 billion registering an increase of 10.1 per cent over end-March 2013. The volume of banknotes in circulation during the same period increased to 77 billion pieces, an increase of 5.2 per cent (Table VIII.1).

**Table VIII.1: Banknotes in Circulation**

Denomination	Volume (million pieces)			Value (₹ billion)		
	Mar 2012	Mar 2013	Mar 2014	Mar 2012	Mar 2013	Mar 2014
1	2	3	4	5	6	7
₹2&₹5	11,540 (16.6)	11,624 (15.8)	11,698 (15.1)	45 (0.4)	46 (0.4)	46 (0.4)
₹10	23,002 (33.2)	25,168 (34.2)	26,648 (34.5)	230 (2.2)	252 (2.2)	266 (2.1)
₹20	3,510 (5.1)	3,825 (5.2)	4,285 (5.5)	70 (0.7)	77 (0.6)	86 (0.7)
₹50	3,488 (5.0)	3,461 (4.7)	3,448 (4.5)	174 (1.6)	173 (1.5)	172 (1.3)
₹100	14,119 (20.3)	14,421 (19.6)	14,765 (19.1)	1,412 (13.4)	1,442 (12.4)	1,476 (11.5)
₹500	10,256 (14.8)	10,719 (14.6)	11,405 (14.7)	5,128 (48.7)	5,359 (46.0)	5,702 (44.4)
₹1,000	3,469 (5.0)	4,299 (5.9)	5,081 (6.6)	3,469 (33.0)	4,299 (36.9)	5,081 (39.6)
<b>Total</b>	<b>69,384</b>	<b>73,517</b>	<b>77,330</b>	<b>10,528</b>	<b>11,648</b>	<b>12,829</b>

**Note:** Figures in parentheses represent the percentage share in total.

### COINS IN CIRCULATION

VIII.3 The rising trend in coins in circulation over the past years continued during 2013-14 as well. The coins in circulation increased by 8.2 per cent and 13.1 per cent in terms of volume and value, respectively (Table VIII.2).

**Table VIII.2: Coins in Circulation**

Denomi- nation	Volume (million pieces)			Value (₹ billion)		
	Mar 2012	Mar 2013	Mar 2014	Mar 2012	Mar 2013	Mar 2014
1	2	3	4	5	6	7
Small Coin	14,785 (19.0)	14,788 (17.4)	14,788 (16.1)	7 (5.3)	7 (4.6)	7 (4.1)
₹1	34,414 (44.1)	35,884 (42.4)	38,424 (41.9)	34 (25.6)	36 (23.5)	38 (21.9)
₹2	18,201 (23.3)	22,113 (26.1)	24,823 (27.1)	36 (27.1)	44 (28.8)	50 (28.9)
₹5	9,981 (12.8)	10,675 (12.6)	11,577 (12.7)	50 (37.2)	53 (34.6)	58 (33.5)
₹10	648 (0.8)	1,267 (1.5)	2,017 (2.2)	6 (4.8)	13 (8.5)	20 (11.6)
<b>Total</b>	<b>78,029</b>	<b>84,727</b>	<b>91,629</b>	<b>133</b>	<b>153</b>	<b>173</b>

**Note:** Figures in parentheses represent the percentage share in total.

### CURRENCY OPERATIONS

VIII.4 The Reserve Bank discharged its currency management function during the year through a network of 19 issue offices, a currency chest at Kochi; 4,183 currency chests (including sub-treasury offices) and 3,967 small coin depots of commercial, urban co-operative and regional rural banks spread across the country (Table VIII.3).

**Table VIII.3: Currency Chests and Small Coin Depots as at end-March 2014**

Category	No. of Currency Chests	No. of Small Coin Depots
1	2	3
Treasuries	11	0
State Bank of India	2,103	2,036
SBI Associate Banks	769	767
Nationalized Banks	1,149	1,018
Private Sector Banks	139	134
Co-operative Banks	2	2
Foreign Banks	5	5
Regional Rural Banks	5	5
<b>Total</b>	<b>4,183</b>	<b>3,967</b>

VIII.5 The Reserve Bank continues to gradually withdraw from retail distribution of currency by ensuring easier access to exchange facilities to the customers through nearby bank branches. Banks have been advised to strengthen their distribution systems and procedures so as to cater to the growing needs of the common man. As on May 31, 2014 there was a decrease of 80 per cent, 94 per cent and 77 per cent in the distribution of banknotes, coins and adjudication of mutilated banknotes respectively from the Reserve Bank counters as compared to the position prevailing on January 01, 2013. Simultaneously, distribution of banknotes, coins and adjudication of mutilated banknotes from counters of identified bank branches increased by 222 per cent, 85 per cent and 19 per cent respectively during the same period.

VIII.6 To ensure that banks have a more pronounced stake in the distribution of banknotes and coins and also to facilitate their uninterrupted supply in places other than metropolitan and urban centres, a scheme on the lines of the lead bank scheme (LBS) has been formulated to allot specific areas (districts/states) to individual banks. On a pilot basis, all regional offices of the Reserve Bank (except Mumbai and New Delhi) have identified one district and a bank each for implementation of LBS for currency management. The scheme relies on the willingness and enthusiasm of banks to be nodal banks for currency management. The identified lead bank is responsible for ensuring that the genuine needs of people for clean banknotes and coins are appropriately met through proper coordination with currency chests and small coin depots situated in that area. On the basis of the experience gained, it is proposed to take the process forward.

VIII.7 With a view to effectively meeting the growing demand for banknotes and coins in the country, banks were permitted to explore the possibility of engaging the services of business correspondents (BCs) and cash in transit (CIT) entities for distribution of banknotes and coins.

VIII.8 As a move towards mitigation of risk arising out of multiple series of banknotes in circulation, at the request of the Government of India, the Reserve Bank has set in process the withdrawal from circulation all banknotes issued prior to 2005 as they have fewer security features as compared to banknotes printed after 2005. The withdrawal exercise is in conformity with the standard international practice of not having multiple series of banknotes in circulation at the same time. The Reserve Bank has been withdrawing these banknotes in a routine manner through banks. These banknotes can be freely exchanged at any bank branch till January 1, 2015. The procedure to be followed after January 1, 2015 will be communicated by the Reserve Bank in due course. Banks were sensitised to ensure the withdrawal in a smooth and non-disruptive manner without causing any inconvenience to the public. Frequently asked questions (FAQs) with appropriate answers were also listed on the Reserve Bank's website.

### CLEAN NOTE POLICY

#### *Indent and supply of banknotes and coins*

VIII.9 The Reserve Bank places indents for coins and banknotes with the mints and presses respectively on the basis of econometric models which factor in, *inter alia*, real GDP growth

**Table VIII.4: Indent and Supply of Banknotes by the Presses to the Reserve Bank (April-March)**

Denomination	Volume (million pieces)							
	2011-12		2012-13		2013-14		2014-15	
	Indent	Supply	Indent	Supply	Indent	Supply	Indent	
1	2	3	4	5	6	7	8	
₹5	0	2	-	-	-	-	-	
₹10	5,700	6,252	12,094	5,506	12,164	9,467	8,000	
₹20	600	1,045	1,060	1,154	1,203	935	2,300	
₹50	1,200	949	1,182	1,626	994	1,174	2,100	
₹100	6,100	5,079	5,704	6,675	5,187	5,131	5,200	
₹500	2,000	2,330	3,985	3,002	4,839	3,393	5,400	
₹1,000	2,000	1,927	746	1,141	975	818	1,500	
<b>Total</b>	<b>17,600</b>	<b>17,584</b>	<b>24,770</b>	<b>19,103</b>	<b>25,362</b>	<b>20,918</b>	<b>24,500</b>	

**Table VIII.5: Indent and Supply of Coins by the Mints to the Reserve Bank (April-March)**

Denomination	Volume (million pieces)							
	2011-12		2012-13		2013-14		2014-15	
	Indent	Supply	Indent	Supply	Indent	Supply	Indent	
1	2	3	4	5	6	7	8	
50 Paise	70	107	50	6	50	40	40	
₹1	1,600	1,480	4,177	1,572	5,418	3,092	6,000	
₹2	2,900	3,343	2,741	3,742	3,546	2,424	4,000	
₹5	800	761	1,586	615	1,819	1,393	2,000	
₹10	1,000	403	1,000	943	1,200	728	1,460	
<b>Total</b>	<b>6,370</b>	<b>6,094</b>	<b>9,554</b>	<b>6,878</b>	<b>12,033</b>	<b>7,677</b>	<b>13,500</b>	

prospects, rate of inflation and disposal rate of denomination-wise soiled banknotes. Accordingly, the supply of banknotes was increased from 19.1 billion pieces in 2012-13 to 20.9 billion pieces in 2013-14 (an increase of 9.5 per cent) (Table VIII.4). The supply of coins also increased during the period by 11.6 per cent over the previous year to 7.7 billion pieces (Table VIII.5).

#### *Disposal of soiled banknotes*

VIII.10 During 2013-14, around 14.2 billion pieces of soiled banknotes were disposed of as against a target of around 17 billion pieces. For 2014-15, a target of around 17 billion pieces has been fixed keeping in view the disposal capacity available and the trend of actual disposal during the last 3 years (Table VIII.6).

**Table VIII.6: Disposal of Soiled Banknotes by the Reserve Bank (April-March)**

Denomination	Volume (million pieces)		
	2011-12	2012-13	2013-14
1	2	3	4
₹1,000	375	450	511
₹500	1,994	2,263	2,405
₹100	5,577	5,627	4,972
₹50	1,578	1,357	1,398
₹20	562	609	725
₹10	3,584	3,752	4,128
Up to ₹5	101	72	48
<b>Total</b>	<b>13,772</b>	<b>14,130</b>	<b>14,187</b>

### COUNTERFEIT NOTES

VIII.11 To ensure proper and prompt reporting of counterfeit notes in order to check the menace of counterfeiting of banknotes, the Reserve Bank continued to emphasise on installation of note sorting machines in chests/branches and creation of forged notes vigilance (FNV) cells in all the banks. To instill confidence of the public in the banknotes in circulation and with a view to controlling and mitigating the risk of financial loss as also loss of reputation, banks have been advised to re-align their cash management in such a manner so as to ensure that cash receipts in denominations of ₹100 and above are not put into re-circulation without the banknotes being machine processed for authenticity. The Reserve Bank also introduced an incentive-penalty system relating to detection and reporting of counterfeit notes by banks.

VIII.12 During 2013-14, 488,273 pieces of counterfeit notes were detected of which 468,446 pieces (95.9 per cent) were detected by commercial bank branches while 19,827 pieces (4.1 per cent) were detected at the Reserve Bank offices (Table VIII.7). During 2013-14, the detection of

**Table VIII.7: Number of Counterfeit Notes Detected (April-March)**

(No. of pieces)

Year	Detection at		Total
	Reserve Bank	Other banks	
1	2	3	4
2011-12	37,690 (7.2)	4,83,465 (92.8)	5,21,155
2012-13	29,200 (5.9)	4,69,052 (94.1)	4,98,252
2013-14	19,827 (4.1)	468,446 (95.9)	488,273

**Note:** Figures in parentheses represent the percentage share in total.

**Table VIII.8: Denomination-wise Detection of Counterfeit Notes in the Banking System (April-March)**

(No. of pieces)

Denomination in ₹	2011-12	2012-13	2013-14
1	2	3	4
2 & 5	–	2	1
10	126	321	157
20	216	221	87
50	12,457	9,759	6,851
100	123,398	108,225	118,873
500	301,678	281,265	252,269
1,000	83,280	98,459	110,035
<b>Total pieces</b>	<b>521,155</b>	<b>498,252</b>	<b>488,273</b>
<b>Notional Value in ₹ billion</b>	<b>0.25</b>	<b>0.25</b>	<b>0.25</b>

**Note:** Data does not include counterfeit notes seized by the police and other enforcement agencies.

counterfeit notes of ₹1,000 and ₹100 increased by 11.8 per cent and 9.8 per cent respectively, whereas that of ₹500 denomination decreased by 10.3 per cent, as compared to the previous year (Table VIII.8). This data, however, does not include the counterfeit notes seized by the police and other enforcement agencies.

### EXPENDITURE ON SECURITY PRINTING AND DISTRIBUTION

VIII.13 With a view to obviating the need for making repeated logistical and security arrangements for transportation of banknotes thereby reducing the costs, as also for ensuring speedy movement of treasure, a scheme of direct remittance of banknotes from note printing presses to currency chests is being progressively pursued by the Reserve Bank. During 2013-14 (July-June), an expenditure of ₹32.1 billion was incurred on security printing as compared to ₹28.7 billion during 2012-13 (July-June).