

XII

CURRENCY MANAGEMENT

12.1 The note issue and currency management function vested in the Reserve Bank in terms of Section 22 of the Reserve Bank of India Act, 1934 was guided during 2003-04 by the objectives of ensuring adequate availability of notes and coins and improving the quality of notes in circulation. Initiatives were taken to improve customer service and enhance security features in currency notes with a strong drive towards computerisation of currency management information system.

12.2 This Section reviews currency operations during 2003-04 covering currency chest activity and efforts undertaken to satisfy the buoyant demand for notes and coins in the face of constraints on fresh supply. An update of efforts under the Clean Note Policy shows progress in improving the quality of currency by efficient withdrawal of soiled and mutilated notes from circulation and mechanisation of processing and destruction. This Section also highlights the priority attached to enhancing the security of the currency through stepped-up detection of counterfeit notes and improved security features in currency notes. The heightened emphasis accorded to customer service in 2003-04, the setting up of a Monetary Museum and a review of the activities of the Bharatiya Reserve Bank Note Mudran Pvt. Ltd. are other aspects covered in this Section.

CURRENCY OPERATIONS

12.3 Currency operations are performed by the Reserve Bank through its 19 regional offices/sub-offices and a wide network of currency chests and small coin depots spread across the country.

12.4 The total number of currency chests declined during the year consequent to implementation of the policy to progressively convert and/or close currency chests held with the State Treasuries. Commercial banks expanded their currency chest operations. Foreign banks were permitted for the first time to operate currency chests. The State Bank Group dominates the currency chest system by maintaining about 72.0 per cent of total currency chests (Table 12.1).

Notes in Circulation

12.5 During the year, the total value of notes in circulation registered a growth of 15.8 per cent, reflecting the buoyancy in economic activity. The ratio of currency to broad money (M_3) remained unchanged at 15.8 per cent at end-March 2004 (Chart XII.1).

Table 12.1: Currency Chests

Category	No. of Currency Chests		
	June 30, 2004	June 30, 2003	March 31, 2003
1	2	3	4
Treasuries	214	405	417
State Bank of India	2,173	2,116	2,117
SBI Associate Banks	1,004	1,002	1,002
Nationalised banks	943	903	897
Private sector banks	58	36	32
Co-operative banks	1	1	1
Foreign banks	4	–	–
Reserve Bank of India	20	20	20
Total	4,417	4,483	4,486

12.6 The supply of notes was lower than the 'indent' made by the Reserve Bank. The supply of coins was also less than the indent but the indent itself was found to be slightly higher than the actual requirement due to decline in demand for coins (Table 12.2).

12.7 Accordingly, efforts to keep pace with the rising volume of currency demand took the form of judicious distribution of available supplies, increase in the percentage of higher denomination notes along with coinisation of lower denomination notes and ensuring the recirculation of notes by use of machines for processing, verification and sorting.

Chart XII.1 : Share of Currency in Broad Money (End-March)

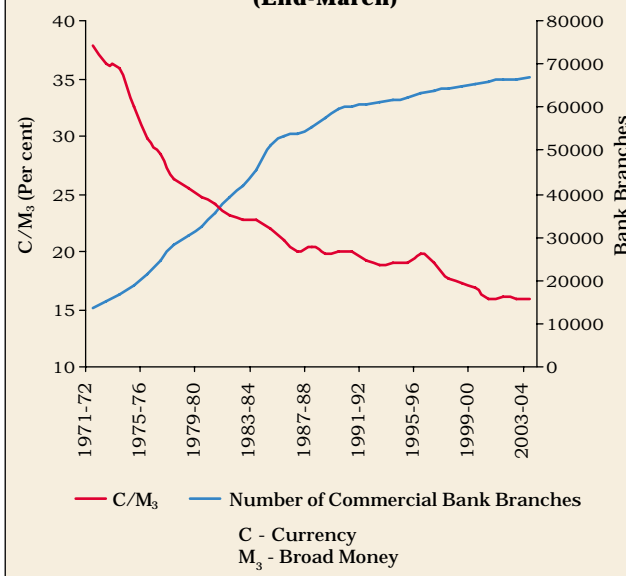


Table 12.2: Fresh Notes and Coins – 2003-04

Item	Notes		Coins	
	Pieces (in Million)	Value (Rupees crore)	Pieces (in Million)	Value (Rupees crore)
1	2	3	4	5
Indent	15,800	1,76,250	3,460	720
Supply	13,166	1,37,278	2,828	509

12.8 A gradual compositional shift is underway in the form of a gradual replacement of lower denomination notes by higher denomination notes. The demand for Rs.500 denomination notes increased sharply due to the growing network of Automated Teller Machines (ATMs). In terms of value, the largest share in circulation was of Rs.500 denomination. Notes of Rs.100 denomination had the largest share in terms of volume. Notes of Rs.100 denomination and Rs.500 denomination together accounted for 76.5 per cent of the total circulation in terms of value (Table 12.3). Both Rs.500 and Rs.1000 denomination notes taken together have a significant share in the value of notes issued over the last four years, although there was a marginal rise in the volume of these notes (Chart XII.2).

12.9 Notes of one rupee denomination have been withdrawn from issuance; however, 2,500 million pieces continued to be in circulation as on March 31, 2004. Value of Rs.5 coins in circulation increased at an average rate of 12.0 per cent over the last two years. The total value of coins including small coins in circulation showed an average growth of 7.0 per cent during the same period (Chart XII.3).

12.10 With adequate availability of coins from the mints, the Reserve Bank undertook intensive efforts to ensure that the shortage of coins in the country in the recent past was mitigated and that the supply of coins to the interior parts of the country was sustained (Box XII.1).

Table 12.3: Circulation of Notes and Coins

(End-March 2004)

Denomination	Value		Volume	
	Rupees crore	Share (per cent)	Million Pieces	Share (per cent)
1	2	3	4	5
Notes				
Rs.2 and Rs.5	2,748	0.9	6,911	18.1
Rs.10	7,750	2.4	7,750	20.2
Rs.20	4,383	1.4	2,192	5.7
Rs.50	33,027	10.3	6,605	17.2
Rs.100	1,21,442	38.0	12,144	31.7
Rs.500	1,22,938	38.4	2,459	6.4
Rs.1,000	27,473	8.6	275	0.7
Total	3,19,761	100.0	38,336	100.0
Coins				
Small Coins	1,353	18.8	54,102	62.9
Rupee coins	2,057	28.6	20,565	23.9
Rs. 2	1,255	17.4	6,275	7.3
Rs.5	2,536	35.2	5,071	5.9
Total	7,201	100.0	86,013	100.0

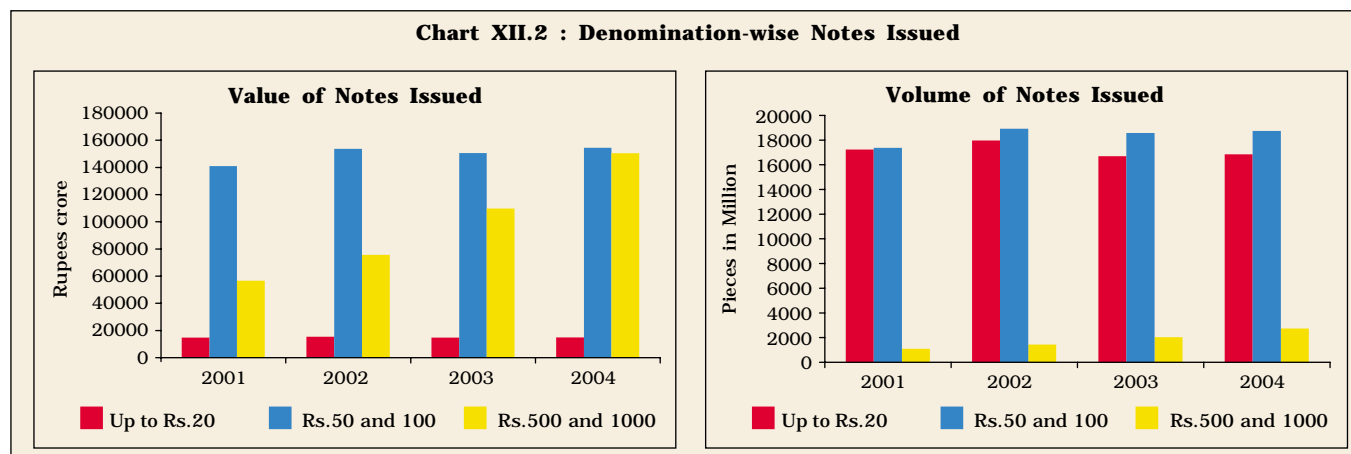
CLEAN NOTE POLICY

12.11 The Reserve Bank took various measures to improve the quality of notes in circulation. These measures included discontinuance of the practice of stapling of note packets, supply of adequate quantity of fresh notes to banks and mopping up of soiled and mutilated notes, particularly notes of lower denominations from circulation and acceleration in mechanised processing of notes at the offices of the Reserve Bank.

Disposal of Soiled Notes

12.12 During 2003-04 (April-March), 12,445 million pieces of soiled notes were processed and disposed off. The denomination-wise disposal of soiled notes indicates that Rs.10 constituted the largest share (40.2 per cent), followed by Rs.100 notes (31.8 per cent) and Rs.50 notes (21.0 per cent) (Table 12.4).

Chart XII.2 : Denomination-wise Notes Issued



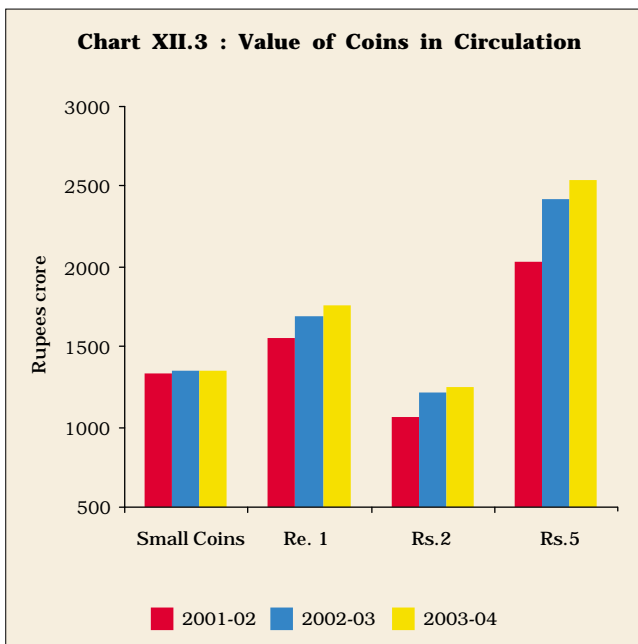
Box XII.1**Coins – Shortage to Surplus**

The Reserve Bank allowed its offices to engage private transport operators for remittances of coins to the interior parts of the country. Coins were distributed through mobile vans. Banks were persuaded to distribute coins in marketplaces and to keep their branches at select places open on Sundays. Services of postal authorities, Regional Rural Banks (RRBs), co-operative banks and State Transport Undertakings were utilised for distribution of coins. A survey conducted by the Administrative Staff College of India (ASCI), Hyderabad, revealed that the availability of coins was 97 per cent of the demand even in rural areas. This was achieved by overcoming the bottlenecks in the distribution system such as non-availability of railway wagons/police security and the reluctance of banks to handle the distribution work.

The demand for coins, particularly of lower denominations, has declined considerably. There has also been a reverse flow of coins of 5 paise, 10 paise and 20 paise denominations. The parallel issue of notes and coins of

Rs.5 denomination has reduced the demand for Rs.5 coins. Increasing stocks of coins with the public and reluctance to accept coins by shops and banks have led to surplus of coins, especially in temple towns, large cities as well as with agencies such as transport authorities and large organisations. The Reserve Bank directed banks maintaining currency chests to accept coins freely from the public either for exchange or for deposit. It also decided to phase out from circulation all lower denomination coins such as 5 paise, 10 paise and 20 paise and cupro-nickel coins of 25 paise, 50 paise and one rupee. Banks have been directed to accept and remit these coins to the Government mints.

Offices of the Reserve Bank have been accepting coins in bulk quantity by weight for the sake of convenience of the public and bank branches. Banks have been directed to implement this measure. Polythene pouches are being made available at some of the bank branches to pack 100 coins for quick and smooth service.

Chart XII.3 : Value of Coins in Circulation

12.13 During 2003-04 (April-March), the Issue Offices of the Reserve Bank received 21,933,212 mutilated notes. 21,908,135 notes, including the backlog from 2002-03, were adjudicated under the Reserve Bank (Note Refund) Rules.

Mechanisation

12.14 Mechanisation of processing and destruction of currency notes has been one of the major thrust areas of the Reserve Bank in currency management.

Table 12.4: Denomination-wise Disposal of Soiled Notes – 2003-04

(Million pieces)

Denomination	2003-04	As percentage to total
	2	3
Rs. 1,000	13	0.1
Rs. 500	247	2.0
Rs. 100	3,954	31.8
Rs. 50	2,617	21.0
Rs. 20	306	2.5
Rs. 10	5,004	40.2
Up to Rs. 5	304	2.4
Total	12,445	100.0

The Reserve Bank has installed 48 Currency Verification and Processing Systems (CVPS) at 18 offices. The notes processed on these machines during 2003-04 aggregated 3,290 million pieces. Twenty-seven Shredding and Briquetting Systems (SBSs) were installed at 18 Issue Offices of the Reserve Bank. These environment-friendly machines provide shredding, granulation and briquetting of soiled currency notes in a secure and eco-friendly manner. These machines have replaced the conventional furnaces. As a result of mechanisation and certain special measures, 12.4 billion pieces of bank notes were disposed off during 2003-04 as compared with 15.6 billion pieces during the previous year.

Counterfeit Notes

12.15 The Reserve Bank's regional offices and branches of various banks detected counterfeit notes valued at Rs. 2.76 crore during 2003-04 as against

Rs. 3.50 crore during 2002-03. While there was a decline in the number of counterfeit notes detected in Rs.500 denominations, there was increase in the number of notes detected in Rs. 100 and Rs.1000 denominations (Table 12.5). Sustained public awareness campaigns on security features of notes were conducted during the year through print and electronic media. Necessary training for detection of counterfeit notes was also imparted to the staff from banks as well as large public sector undertakings and government departments such as Railways.

12.16 The Reserve Bank and the Central Bureau of Investigation (CBI) jointly conducted a workshop on counterfeiting, security features of notes and detection of counterfeit notes with participants from senior level police officers from States/Union Territories, National Crime Record Bureau (NCRB), Ministry of Home Affairs and Ministry of Finance.

Table 12.5: Counterfeit Notes Detected

Denomination	(No. of pieces)	
	2003-04	2002-03
1	2	3
Rs. 1,000	248	39
Rs. 500	17,783	35,398
Rs. 100	1,82,361	1,72,597
Rs. 50	4,701	3,488
Rs. 20	56	34
Rs. 10	77	198
Total	2,05,226	2,11,754

Mahatma Gandhi Series Notes

12.17 The Mahatma Gandhi series of notes with enhanced security features were introduced from 1996. With the advancement in reprographic techniques, earlier security features were no longer considered sufficient to deter forgeries. Accordingly, new security features have been progressively built into these notes over the period since their introduction (Box XII.2).

Box XII.2

Security Features of Mahatma Gandhi Note Series

Security features of bank notes of the Mahatma Gandhi Note Series are set out below:

Watermark: The Mahatma Gandhi Series of bank notes contain the Mahatma Gandhi watermark with a light and shade effect and multi-directional lines in the watermark window.

Security Thread: Rs. 1000 notes contain a readable, windowed security thread alternately visible on the obverse with the inscriptions 'Bharat' (in Hindi), '1000' and 'RBI', totally embedded on the reverse. The Rs.500 and Rs.100 notes have a security thread with similar visible features and inscription 'Bharat' (in Hindi), and 'RBI'. When held against the light, the security thread on Rs.1000, Rs.500 and Rs.100 notes can be seen as one continuous line. The Rs.5, Rs.10, Rs.20 and Rs.50 notes contain a readable, fully embedded windowed security thread with the inscription 'Bharat' (in Hindi) and 'RBI'. The security thread appears to the left of Mahatma Gandhi's portrait.

Latent Image: On the obverse side of Rs.1000, Rs.500, Rs.100, Rs.50 and Rs.20 notes, a vertical band on the right side of Mahatma Gandhi's portrait contains a latent image showing the respective denominational value in numeral. The latent image is visible only when the note is held horizontally at eye level.

Micro lettering: This feature appears between the vertical band and Mahatma Gandhi's portrait. It contains the word 'RBI' in notes of Rs.5 and Rs.10. Notes of Rs.20 and above also contain the denominational value in micro letters. This feature can be seen better under a magnifying glass.

Intaglio Printing: The portrait of Mahatma Gandhi, the Reserve Bank's seal, the guarantee and promise clause, the Ashoka Pillar Emblem on the left and the Governor's signature are printed in intaglio, i.e., in raised prints,

which can be felt by touch in Rs.20, Rs.50, Rs.100, Rs.500 and Rs.1000 notes.

Identification Mark: A special feature in intaglio introduced on the left of the watermark window on all notes except the Rs.10/- note assigns different shapes for various denominations (Rs. 20-Vertical Rectangle, Rs.50-Square, Rs.100-Triangle, Rs.500-Circle and Rs.1000-Diamond) to help the visually impaired to identify the denomination.

Fluorescence: Number panels of the notes are printed in fluorescent ink. The notes also have optical fibres. Both can be seen when the notes are exposed to ultra-violet lamp.

Optically Variable Ink: A new security feature was incorporated in the Rs.1000 and Rs.500 notes with revised colour scheme introduced in November 2000. The numerals 1000 and 500 on the obverse of Rs.1000 and Rs.500 notes, respectively, are printed in optically variable ink, viz., a colour-shifting ink. The colour of the numeral 1000/500 appears green when the note is held flat but would change to blue when the note is tilted.

See Through Register: The small floral design printed both on the front (hollow) and back (filled up) of the note in the middle of the vertical band next to the watermark has an accurate back to back registration. The design will appear as one floral design when seen against the light.

References

- Balachandran, G. (1998), 'The Reserve Bank of India, 1951-67', Oxford University Press.
- Bazil Shaik and Sandhya Srinivasan, (2001), 'The Paper and the Promise: A Brief History of Currency and Bank Notes in India', Reserve Bank of India.
- Reserve Bank of India (2001), 'Functions and Working of the Reserve Bank of India'.

Computerisation of Currency Management

12.18 The Reserve Bank is putting in place an Integrated Computerised Currency Operations and Management System (ICCOMS) in the Issue Departments of the regional offices of the Reserve Bank and in the Department of Currency Management at the Central Office. The project includes computerisation and networking of the currency chests with the Reserve Bank's offices to facilitate prompt, efficient, error-free reporting and accounting of currency chest transactions in a secure manner. The system will provide a uniform computing platform across all the regional offices for transaction processing, accounting and management information system relating to currency.

Customer Service

12.19 The Reserve Bank stepped up efforts to improve customer services in the issue of coins, acceptance of coins from public and exchange of soiled and mutilated notes. The Reserve Bank introduced a single window customer service at its Issue Offices under which coins and notes of all denominations are either issued or accepted at one counter. Similarly, mutilated notes are accepted in a Drop Box (even beyond normal banking hours) without any limit. A noteworthy development in this regard in 2003-04 was the constitution of a Committee on Procedures and Performance Audit on Public Services (Chairman: Shri S.S. Tarapore) to study, *inter alia*, services relating to individuals (non-business) on currency management (Box XII.3).

Reserve Bank Monetary Museum

12.20 The Reserve Bank is setting up a Monetary Museum in Mumbai to preserve the country's monetary heritage. The Museum is the first of its kind in the country and aims to depict the history of currency and the evolution of money in India. The Museum would exhibit representative collection of coinage, paper currency, financial instruments and curiosities across the Indian history. The main exhibit sections of the Museum relate to concepts, ideas and curiosities; coinage – from coins to bank notes – and advent of banking in India.

12.21 The entire display has been divided into self-contained thematic modules. The coinage section spans a period going back from the early issues of punched marked coins in the sixth century B.C. to the contemporary Republic of India coins. The notes on display date from the early nineteenth century and consist of notes issued by private and semi-government banks, the Government of India and the Reserve Bank. The section on Financial Instruments depicts hundies, cheques and promissory notes, used in India. The Museum also houses portraits of Governors of the Reserve Bank.

The Bharatiya Reserve Bank Note Mudran Pvt. Ltd

12.22 The total production of notes by the two presses of the Bharatiya Reserve Bank Note Mudran Pvt. Ltd. (BRBNMPL) at Mysore and Salboni increased by 34 per cent to 8,100 million pieces during the year 2003-04 as compared with 6,049 million pieces in the previous

Box XII.3

Committee on Procedures and Performance Audit on Public Services

The major recommendations of the Committee, which have been accepted by the Reserve Bank, are:

- Transparency in currency management;
- Early introduction of Rs.10 coin;
- Phasing out of Rs.5 note totally;
- Currency Chest Agreement to be revised to incorporate a provision for monetary penalty for non-compliance with the Reserve Bank's instructions;
- A Systems Study of Banking Hall arrangements in the Mumbai Office of the Reserve Bank to be commissioned with the help of a specialised agency to resolve the bottlenecks in the smooth flow of transactions;
- Suitable measures to separate location/time for services to money changers and other individuals;
- Citizens' Charter for Currency Exchange Facilities be made available to customers visiting the Banking

Halls of the Reserve Bank offices and bank branches;

- Authorised bank branches to exhibit prominently a notice that soiled/mutilated currency notes are freely exchanged at the bank branch;
- The Reserve Bank Note Refund Rules to be written in easily understandable language;
- The practice of pasting of mutilated notes at the time of tendering for exchange should be reviewed by the Reserve Bank; and
- Stringent action to be taken against violation of instructions by banks on exchanging soiled/mutilated notes.

Reference

1. Reserve Bank of India (2004), 'Committee on Procedures and Performance Audit on Public Services', May.

year. The sales turnover increased by 22.0 per cent to Rs. 813 crore during 2003-04 from Rs. 667 crore in the previous year. The company achieved a net profit of Rs.135 crore during 2003-04 as compared with Rs.274 crore during the previous year. The decline in profit was due to reduction in the sale price and certain adjustments in booking of interest income in respect of loans extended to the Government of India presses. The company repaid the outstanding balance of long-term loans of Rs.1,300 crore and working capital of Rs.175 crore to the Reserve Bank by switching over credit facilities to the State Bank of India (SBI). The company was certified as "ISO 14001-1996 Company" during the year.

Outlook

12.23 The Reserve Bank would continue to pursue the objective of meeting the currency demand of the economy and improving the quality of notes. Installation of additional Currency Verification and Processing Systems would be undertaken to ease the pressure of accumulation of soiled notes. Customer

service would be upgraded further. A sustained campaign against counterfeiting is being devised along with greater emphasis on enhanced security features. The Reserve Bank would continue to facilitate the circulation of clean notes in the economy. It intends to implement the Integrated Computerised Currency Operations and Management System (ICCOMS) in all its offices and major currency chests during 2004. The process of design and development of software for the system is in progress. This will be followed by testing on a pilot basis at currency chests and select offices of the Reserve Bank. In view of the magnitude and spread, a process of dialogue with banks has been initiated to work out the modalities for testing, training, trial run and implementation. The Information Technology (IT) initiatives taken by banks for computerisation of branch operations, coupled with advances in the communication facilities in the country, would provide the necessary platform for successful implementation of the ICCOMS across all banks throughout the country. These measures would provide an enabling environment for smooth currency management.