

*Reflecting the Reserve Bank's clean note policy, there was larger withdrawal of soiled notes from circulation alongside higher supply of fresh notes. Expenditure incurred on security printing increased primarily due to higher supply of fresh notes. Counterfeit notes detected during 2009-10 were of the same magnitude as in the previous year. The systems for prevention and detection of counterfeit notes are being strengthened on a continuous basis by enhancing the security features of the currency notes, creating greater public awareness, simplifying the administrative and legal arrangements to encourage reporting of counterfeit notes, and enhancing the use of technology in banks.*

VIII.1 Issue and management of bank notes has been one of the basic and most publicly visible functions of the Reserve Bank since its inception. The demand for currency has increased constantly with the growth of the size of the economy, notwithstanding the progress on non-cash modes of payments due to advances in technology. Distribution of fresh notes as well as withdrawal and destruction of soiled notes constitute the core of the currency management operations of the Reserve Bank. With the rising risk of counterfeit notes, preserving public confidence in the currency has assumed critical significance.

#### CURRENCY OPERATIONS

VIII.2 In pursuing the objective of providing good quality banknotes to the public, the Reserve Bank undertook a series of initiatives, which included regular supply of fresh banknotes, speedier disposal of soiled banknotes and extensive mechanisation of cash processing activities. The Reserve Bank has also been examining various options to enhance the life of banknotes as part of its 'Clean Note Policy'. The Bank has been taking several steps to check the menace of counterfeit notes, such as (i) creating awareness through publicity campaigns, (ii) enhancing the security features, and (iii) using technology to detect fake notes.

#### Infrastructure for Currency Management

VIII.3 The note issue and currency management function of the Bank is performed through its 18 issue offices, one sub-office at Lucknow, a currency chest at Kochi and a wide network of currency chests (CCs) and small coin depots (SCDs). The number of currency chests increased from 4,299 at end-December 2008 to 4,300 at end-December 2009 while the number of SCDs increased from 4,060 to 4,078 during the same period. As a part of the process of phasing out the currency chests with sub treasury offices (STOs), their number reduced further to 11 during 2009-10. The State Bank of India continues to have the largest share (71.0 per cent) of currency chests, followed by the nationalised banks (25.6 per cent) and private sector/foreign banks (2.6 per cent). Regional Rural Banks and Co-operative banks hold one chest each.

VIII.4 Bank notes and coins are distributed through more than 64,000 bank branches and more than 43,000 ATMs. Besides, banks distribute coins through Coin Vending Machines. To facilitate processing of currency, the Reserve Bank has installed 54 high capacity currency verification and processing system (CVPS), 28 currency disintegration and briquetting system (CDBS), 40 desktop note sorting machines across its offices. During the year, the Bank has initiated steps to purchase 5 more CVPS and enhance the capacity

of 5 CDBS. The commercial banks have installed note sorting machines (NSM), desktop note sorters, note counting machines, ATMs, cash recyclers, and note detectors. Having installed them in the currency chests and in sensitive and high business branches, they have now embarked on increasing the coverage in a time-bound manner.

## NOTES AND COINS IN CIRCULATION

### Bank Notes in Circulation

VIII.5 Both value and volume of banknotes in circulation increased during 2009-10 (Table VIII.1). The 10 rupee denomination showed the highest rate of growth in terms of both value and volume.

### Coins in Circulation

VIII.6 The total volume of coins, including small coins in circulation, increased by 5.3 per cent during 2009-10 as compared with 4.7 per cent in the previous year. In value terms, the increase was 11.2 percent during 2009-10 as compared with 9.6 per cent a year ago (Table VIII.2). The circulation of new bimetallic ₹10 coins represented an insignificant proportion of the total coins in circulation at the end of the year.

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

Denomination	Volume (million pieces) End - March			Value (Rupees crore) End - March		
	2008	2009	2010	2008	2009	2010
1	2	3	4	5	6	7
₹2 & ₹5	7,405 (16.7)	7,865 (16.0)	7,953 (14.1)	2,747 (0.5)	2,936 (0.4)	2,930 (0.4)
₹10	9,333 (21.1)	12,222 (25.0)	18,536 (32.8)	9,333 (1.6)	12,222 (1.8)	18,536 (2.4)
₹20	2,054 (4.6)	2,200 (4.5)	2,341 (4.1)	4,108 (0.7)	4,399 (0.6)	4,681 (0.6)
₹50	5,302 (12.0)	4,888 (10.0)	4,211 (7.4)	26,508 (4.6)	24,440 (3.6)	21,057 (2.7)
₹100	13,457 (30.4)	13,702 (28.0)	13,836 (24.5)	1,34,575 (23.1)	1,37,028 (20.1)	1,38,364 (17.6)
₹500	5,262 (12.0)	6,166 (12.6)	7,290 (12.9)	2,63,108 (45.2)	3,08,304 (45.3)	3,64,479 (46.2)
₹1000	1,412 (3.2)	1,918 (3.9)	2,383 (4.2)	1,41,219 (24.3)	1,91,784 (28.2)	2,38,252 (30.2)
<b>Total</b>	<b>44,225</b>	<b>48,963</b>	<b>56,549</b>	<b>5,81,598</b>	<b>6,81,133</b>	<b>7,88,299</b>

Note: Figures in bracket represent per cent to total.

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

Denomination	Volume (million pieces) End - March			Value (Rupees crore) End - March		
	2008	2009	2010	2008	2009	2010
1	2	3	4	5	6	7
Small coin	54,735 (57.3)	54,736 (54.7)	54,738 (52.0)	1,455 (16.0)	1,455 (14.6)	1,455 (13.1)
₹1	24,721 (25.9)	26,975 (27.0)	29,461 (28.0)	2,472 (27.2)	2,696 (27.1)	2,964 (26.8)
₹2	9,535 (10.0)	11,179 (11.2)	13,198 (12.5)	1,907 (21.0)	2,236 (22.4)	2,640 (23.8)
₹5	6,500 (6.8)	7,141 (7.1)	7,760 (7.4)	3,250 (35.8)	3,570 (35.9)	3,880 (35.0)
₹10	-	-	149 (0.1)	-	-	149 (1.3)
<b>Total</b>	<b>95,491</b>	<b>1,00,013</b>	<b>1,05,306</b>	<b>9,084</b>	<b>9,957</b>	<b>11,070</b>

Note: Figures in bracket represent per cent to total.

### CLEAN NOTE POLICY

VIII.7 The Reserve Bank adopted the 'Clean Note Policy' for circulation of fairly good quality banknotes and withdrawal of unfit/soiled banknotes from circulation and their destruction. As a result of this, 14,987 million fresh banknotes were issued by the Bank for circulation during 2009-10 as compared with 13,809 million in 2008-09. However, 13,072 million pieces of soiled banknotes were withdrawn and disposed off/destroyed during the year (11,962 million pieces in 2008-09).

### Indent and Supply of Fresh Banknotes and Coins

VIII.8 To meet the increasing demand for banknotes in a growing economy, the Reserve Bank has been placing increasing indent for banknote production/supply (Table VIII.3). The indent for banknotes for 2009-10 (April-March) was met by the printing presses for the fourth consecutive year.

VIII.9 The Bharatiya Reserve Bank Note Mudran Pvt. Ltd. (BRBNMPL) supplied 9,517 million pieces of banknotes during 2009-10 (July - June) as compared to 8,501 million pieces supplied during 2008-09 (July-June). The notes printed by Security Printing and Minting Corporation of India Ltd. (SPMCIL) was 7,517 million pieces in 2009-10 (July - June) as compared to 5,160 million pieces in 2008-09 (July-June). With regard to coins, for

**CURRENCY MANAGEMENT**

**Table VIII.3: Banknotes Indented and Supplied**

Denomination	Volume (million pieces)				
	2008-09		2009-10		2010-11
	Indent	Supply	Indent	Supply	Indent
1	2	3	4	5	6
₹5	250	250	1,000	548	—
₹10	5,000	5,030	5,000	5,060	5,000
₹20	500	500	800	820	1,500
₹50	1,000	1,008	1,000	1,004	2,000
₹100	4,200	4,215	4,000	3,969	4,300
₹500	3,500	3,459	4,000	4,008	4,000
₹1000	800	763	1,000	1,007	1,000
<b>Total</b>	<b>15,250</b>	<b>15,225</b>	<b>16,800</b>	<b>16,416</b>	<b>17,800</b>

the first time, the indent of coins was fully met by the supplies from the mints during 2009-10 (Table VIII.4).

**Disposal of Soiled Banknotes**

VIII.10 During the year 2009-10, 13,072 million pieces of soiled banknotes (23.1 per cent of notes in circulation) were processed and removed from circulation (Table VIII.5). Out of the total disposal, about 53.6 per cent were processed over 54 CVPS and remaining banknotes were disposed of under Dynamic Working Model.

*High Level Group on Systems and Procedures for Currency Distribution*

VIII.11 A High Level Group on Systems and Procedures for Currency Management (Chairperson: Smt. Usha Thorat, Deputy Governor, RBI) constituted by the Bank, submitted its Report

**Table VIII.5: Disposal of Soiled Notes and Supply of Fresh Banknotes**

Denomination	Volume (million pieces)					
	2007-08		2008-09		2009-10	
	Disposal	Supply	Disposal	Supply	Disposal	Supply
1	2	3	4	5	6	7
₹1000	17	633	39	664	78	865
₹500	444	1,756	735	2,611	1,247	3,513
₹100	3,727	4,015	3,690	4,277	4,307	3,935
₹50	2,172	1,522	2,403	1,042	2,400	791
₹20	834	728	1,003	605	790	467
₹10	3,030	4,580	3,700	4,607	3,832	4,975
Up to ₹5	472	478	392	3	418	441
<b>Total</b>	<b>10,969</b>	<b>13,742</b>	<b>11,962</b>	<b>13,809</b>	<b>13,072</b>	<b>14,987</b>

in August 2009, to enhance the integrity and efficiency of the systems and procedures for stocking and distribution of currency notes. The Group emphasised the use of technology as the prime imperative for the changes needed in currency management. The Group suggested different measures for detecting counterfeit notes and maintaining good quality notes in circulation, and strengthening security systems. As per the recommendations, to ensure issuance of only clean and genuine notes to public, banks should use note sorting machines. The Reserve Bank, in turn, should set parameters and standards for such machines. To avail economies of scale, cash processing centres with high speed and high capacity machines should be established by banks. The number of currency chests should be rationalised. To contain risks, chest holding limits should be fixed. The soiled notes should be shrink-wrapped to enhance security and prevent pilferage.

**Table VIII.4: Indent and Supply of Coins**

Denomination	Volume (million pieces)					Value (Rupees crore)			
	2008-09		2009-10		2010-11	2008-09		2009-10	
	Indent	Supply	Indent	Supply	Indent	Indent	Supply	Indent	Supply
1	2	3	4	5	6	7	8	9	10
50 paise	400	153	200	100	70	20	8	10	5
₹1	2,500	2,110	3,000	2,918	2,600	250	211	300	292
₹2	1,800	1,617	2,000	2,284	1,700	360	334	400	457
₹5	1,200	335	800	778	1,300	600	168	400	389
₹10	0	80	100	205	1,000	0	80	100	205
<b>Total</b>	<b>5,900</b>	<b>4,295</b>	<b>6,100</b>	<b>6,285</b>	<b>6,670</b>	<b>1,230</b>	<b>801</b>	<b>1,210</b>	<b>1,348</b>

### Other Measures taken to Improve the Quality of Banknotes in Circulation

VIII.12 Following the recommendations of the Group, the Reserve Bank issued a directive to the commercial banks on November 19, 2009 under Section 35A of Banking Regulation Act, 1949 directing them to issue to public only such notes (of higher denomination) which are pre-processed for genuineness and fitness through note sorting machines. Banks have been further directed that all branches must duly check for authenticity/genuineness and fitness of the notes by machines; the specific norms are that branches who have average daily cash receipt of over ₹1 crore must comply by April 1, 2010 and those between ₹50 lakh to ₹1 crore by April 1, 2011. Banks have also been advised to prepare a roadmap for complying with these directions for the remaining branches. Parameters on fitness sorting and authentication have also been issued by the Reserve Bank. Banks are required to use only those machines, which comply with these parameters.

VIII.13 The Reserve Bank, along with the Government, has been exploring methods to increase the life of currency notes, especially of the lower denomination which have a much shorter life. Several countries have resorted to plastic notes to elongate the life of their banknotes. However, there are certain apprehensions regarding the use of plastic notes. The Reserve Bank, in consultation with the Government, has initiated steps to conduct a field trial of plastic notes in the denomination of ₹10 in the year 2010-11 to gather valuable lessons.

### COUNTERFEIT BANKNOTES

VIII.14 Counterfeit banknotes detected during the year were of similar magnitude as in 2008-09. There was, however, a large increase in the number of counterfeit notes detected during 2008-09 (Table VIII.6). Out of the total detection of 401 thousand pieces, 86.9 per cent was detected at bank branches, which indicate the result of increased use of NSMs at their end.

**Table VIII.6: Counterfeit Notes Detected**

Year	Detection at RBI (no. of pieces)	Detection at other banks (no. of pieces)	Total (no. of pieces)
1	2	3	4
2006-07	59,049 (56.4)	45,695 (43.6)	104,743
2007-08	62,134 (31.7)	133,677 (68.3)	195,811
2008-09	55,830 (14.0)	342,281 (86.0)	398,111
2009-10	52,620 (13.1)	348,856 (86.9)	401,476

**Note:** Figures in parentheses represent the shares in total.

VIII.15 The Reserve Bank has been taking several steps to check the menace of counterfeit banknotes. The legal provision with respect to filing of First Information Report (FIR) seems to be coming in the way of detecting and reporting of the counterfeit notes. The High Level Group (HLG) recommended that these rules need to be simplified so that innocent members of the public are not harassed by the legal provisions (Box VIII.1).

### CUSTOMER SERVICE

#### Exchange of Banknotes - Revision of Note Refund Rules

VIII.16 With a view to further simplifying the Note Refund Rules with regard to exchange of soiled and mutilated / torn notes, the Note Refund Rules 2009, after approval of the Parliament, were notified/published in the Official Gazette of India and came into force on August 4, 2009. The new Note Refund Rules 2009 are simple and easy to comprehend and implement, leaving less scope for subjectivity. The procedure required to be followed by the branches for acceptance, adjudication, and maintenance of records of mutilated notes is also laid down in the booklet. During 2009-10 (April-March), the number of banknotes adjudicated by the Reserve Bank offices was 24.3 million as against 5.7 million by currency chests. The Citizens' Charter has been updated and put on the RBI website in April 2009. It contains detailed information on exchange of soiled and mutilated notes on public counters, procedure, cost,

**Box VIII.1**  
**Procedure for Dealing With Counterfeit Currency**

Printing and/ or circulation of forged Indian Currency Notes is an offence under Sections 489A to 489E of the Indian Penal Code. As per Section 39 of the Criminal Procedure Code, every person, aware of the commission of or of the intention of any other person to commit certain offences, including those relating to counterfeiting of currency, is required to immediately give information about such commission or intention to the nearest magistrate or police officer. Accordingly, the procedure prescribed by the Reserve Bank of India for the commercial banks requires impounding all counterfeit notes detected by the banks and sending them to the police for lodging an FIR in accordance with the law. The Reserve Bank has instructed each bank to establish at its Head Office a Forged (Counterfeit) Note Vigilance Cell to undertake the functions relating to handling of counterfeit notes.

Banks/Treasuries examine the banknotes received by them from their customers for presence of security features to determine their genuineness. If a banknote is suspected as a counterfeit on examination, it is branded with a stamp "COUNTERFEIT BANKNOTE" and impounded in the presence of the tenderer. An acknowledgement is issued to the tenderer. The receipt is authenticated by the cashier as well as by the tenderer. The receipt is issued even in cases where the tenderer is unwilling to countersign the receipt. The impounded note is forwarded to local police authorities for investigation by filing the FIR. Particulars such as name, address of the tenderer and his/ her statement as to how the said note came into his/ her possession are also forwarded to police authorities. FIR is required to be filed in respect of each case of detection of counterfeit note irrespective of the number of pieces and bonafides of the tenderer.

As incidence of fake notes has been increasing, individuals may come in possession of a counterfeit note without knowledge of it being a counterfeit and unintentionally become a conduit for circulation of the same by presenting

it to a bank or business establishment. This could lead to harassment for the member of the public/ bank personnel as currently the requirement is that FIR should be filed in all such cases. Because of the FIR requirement, there is a tendency to under report such cases to the police/ RBI. The High Level Group on 'Systems and Procedures for Currency Distribution' constituted by the Reserve Bank, which submitted its Report in August, 2009 looked into the issue of counterfeit notes. As per the recommendations of the Group, where any person inadvertently in possession of fake notes up to five pieces tenders the same at the bank counter:

- (a) Banks should impound such notes and provide acknowledgement to the tenderer as per current guidelines.
- (b) Banks should obtain approved ID document(s) of the tenderer (in case of a customer the bank would already have the necessary documents, for a non-customer approved ID document or finger prints may be obtained).
- (c) Banks should include such instances in the Counterfeit Currency Report (CCR) to FIU-IND / RBI. The counterfeit notes may be sent to RBI.
- (d) The bank need not file an FIR in such cases.

The Reserve Bank has initiated discussions with the Government for appropriate amendment to rules/codes. The Bank continued to work with the Government for introduction of notes with new/changed design and new/ updated security features in the year 2010. Other ongoing programmes include, withdrawal of old series notes in a non-disruptive way, public awareness programmes through print/electronic media/ posters, training of cash handlers, coordination with various law enforcing/ investigating agencies, and creation of administrative/ other infrastructure in banks.

time for availing these services and Mechanism for Grievance Redressal.

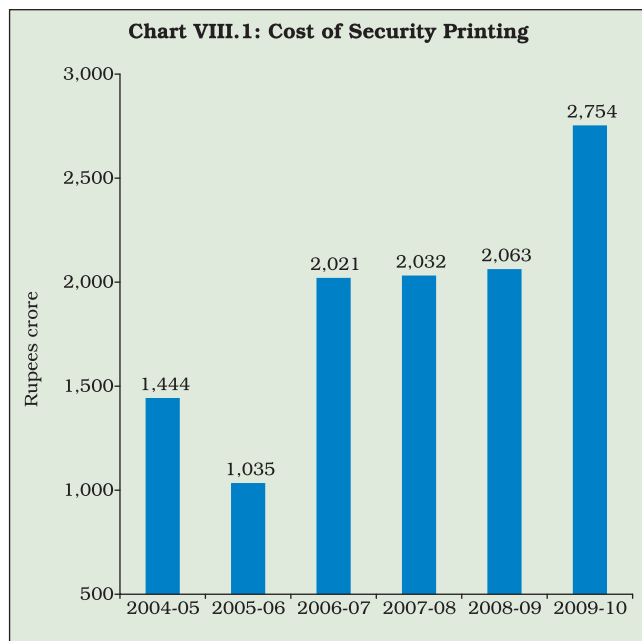
**INDIGENISATION OF PAPER, INK AND OTHER  
RAW MATERIALS FOR PRODUCTION OF  
BANKNOTES**

VIII.17 In order to indigenise production of bank notes, the foundation stone of Bank Note Paper Mill, a 50:50 shareholding between BRBNMPL and SPMCIL, was laid at Mysore. The installed capacity in the first phase will be 6000 metric tonnes (MT)

by 2012 and will be enhanced to 12000 MT in another year or so. Factors like self reliance in paper, cost savings, strategic considerations and security were the main considerations in setting up a paper mill.

**EXPENDITURE ON CURRENCY PRINTING  
AND DISTRIBUTION**

VIII.18 The expenditure incurred on security printing charges (note forms) in 2009-10 (July-June) increased by ₹691 crore (33.5 per cent) to



₹2,754 crore (Chart VIII.1). The increase in expenditure on security printing was mainly on account of increase in procurement of banknotes in 2009-10 (July-June) by 24.7 per cent and partly on account of moderate increase in prices of banknotes (3 to 11 per cent) in different denominations.

VIII.19 Expenditure on Remittance of Treasure has increased from ₹32 crore in 2008-09 to ₹37 crore

in 2009-10 (July-June), mainly on account of increase in indent and revision of salary of Police/ other forces deployed for security/ guarding/ escorting of Treasure post Sixth Pay Commission.

VIII.20 Providing adequate supply of good quality banknotes and coins in the country would continue to be the focus of currency management operations in the Reserve Bank. Enhancing the efficiency in currency operations of banks will be a focus in the coming years and use of technology will be the key. Establishment of cash processing centres (CPC) across the country and improved logistics management will ensure clean and good quality notes. The Reserve Bank would also continue with its efforts to further strengthen security features in the banknotes and educate the public about security features in genuine banknotes so as to mitigate the risk posed by counterfeiting.

VIII.21 The initiatives in other areas of currency management would also be pursued vigorously, particularly examining various options for increasing the circulation life of banknotes of lower denominations, ensuring printing of banknotes meeting very strict quality rules/standards, reviewing the banknotes and coins handling practices including recycling of banknotes and coins, and issue of currency through ATMs.