

*Notwithstanding the increasing use of technology driven non-cash modes of payment, the demand for currency continues to rise. The Reserve Bank in pursuing its clean note policy has made provision for a steady supply of fresh banknotes in response to the speedier disposal of soiled banknotes. While the current financial year marks the end of circulation for coins of denomination of 25 paise and below, the economy continues to witness a compositional shift towards higher denomination banknotes. The Reserve Bank continued with its efforts to strengthen the security features of banknotes and increase public awareness so as to address the challenge of counterfeit notes.*

VIII.1 The management of currency being one of the core functions of a central bank, commands a high degree of public visibility. Section 22 of the Reserve Bank of India Act, 1934, empowers the Reserve Bank as the sole authority to issue banknotes in India. Although one rupee notes / rupee coins and 50 paise coins are issued by the Government, they are put into circulation only through the Reserve Bank of India. Also, the Act casts upon the Reserve Bank, not only the responsibility of providing banknotes in adequate quantity throughout the country, but also maintaining the quality of banknotes in circulation.

VIII.2 The Reserve Bank has, accordingly, carried out the functions of note issue and currency management during 2010-11. Prevention and detection of counterfeit notes continued to be accorded high priority. The ongoing process of enhancing security features of the banknotes was pursued with renewed vigour. Further, so as to encourage reporting of counterfeit notes, conscious efforts were made for simplifying the administrative and legal procedures. Technology driven improvements in customer service were also undertaken.

### BANKNOTES IN CIRCULATION

VIII.3 Value, as well as volume, of the banknotes continued to increase during 2010-11 (Table VIII.1). Growth in the value of banknotes outpaced that of volume, reflecting the continuing compositional shift towards higher denomination banknotes, particularly ₹1,000 and ₹500.

### COINS IN CIRCULATION

VIII.4 The total value of coins, including small coins in circulation, increased by 14.1 per cent during 2010-11 as compared with 12.2 per cent in the previous year. In volume terms, the increase was 6.5 per cent during 2010-11 as compared with 5.8 per cent a year ago (Table VIII.2).

VIII.5 In the exercise of powers conferred by Section 15A of the Coinage Act, 1906 (3 of 1906), the Government of India decided to call in from circulation coins of denomination of 25 paise and below with effect from end-June, 2011. Thereafter, these coins will cease to be legal tender for payment as well as on account. Exchange facilities for these

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

Denomination	Volume (Million pieces) End - March			Value (₹ crore) End - March		
	2009	2010	2011	2009	2010	2011
1	2	3	4	5	6	7
₹2 & ₹5	7,865 (16.0)	7,953 (14.1)	11,116 (17.2)	2,936 (0.4)	2,930 (0.4)	4,281 (0.5)
₹10	12,222 (25.0)	18,536 (32.8)	21,288 (33.0)	12,222 (1.8)	18,536 (2.4)	21,288 (2.3)
₹20	2,200 (4.5)	2,341 (4.1)	3,020 (4.7)	4,399 (0.6)	4,681 (0.6)	6,040 (0.7)
₹50	4,888 (10.0)	4,211 (7.4)	3,196 (5.0)	24,440 (3.6)	21,057 (2.7)	15,980 (1.7)
₹100	13,702 (28.0)	13,836 (24.5)	14,024 (21.7)	1,37,028 (20.1)	1,38,364 (17.6)	1,40,243 (15.0)
₹500	6,166 (12.6)	7,290 (12.9)	8,906 (13.8)	3,08,304 (45.3)	3,64,479 (46.2)	4,45,311 (47.6)
₹1,000	1,918 (3.9)	2,383 (4.2)	3,027 (4.7)	1,91,784 (28.2)	2,38,252 (30.2)	3,02,713 (32.4)
<b>Total</b>	<b>48,963</b>	<b>56,549</b>	<b>64,577</b>	<b>6,81,133</b>	<b>7,88,299</b>	<b>9,35,856</b>

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

## CURRENCY MANAGEMENT

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

Denomination	Volume (Million pieces)			Value (₹ crore)		
	End - March			End - March		
	2009	2010	2011	2009	2010	2011
1	2	3	4	5	6	7
Small coin	54,736 (57.7)	54,738 (52.0)	54,797 (48.9)	1,455 (14.6)	1,455 (13.1)	1,458 (11.5)
₹1	26,975 (27.0)	29,461 (28.0)	32,675 (29.1)	2,696 (27.1)	2,964 (26.8)	3,267 (25.9)
₹2	11,179 (11.2)	13,198 (12.5)	15,342 (13.7)	2,236 (22.4)	2,640 (23.8)	3,068 (24.3)
₹5	7,141 (7.1)	7,760 (7.4)	9,070 (8.1)	3,570 (35.9)	3,880 (35.0)	4,535 (35.9)
₹10	-	149 (0.0)	300 (0.3)	-	149 (1.3)	300 (2.4)
<b>Total</b>	<b>100,013</b>	<b>105,306</b>	<b>112,184</b>	<b>9,957</b>	<b>11,070</b>	<b>12,628</b>

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

coins were made available at the branches of banks maintaining small coin depots and also at offices of the Reserve Bank.

### CURRENCY OPERATIONS

VIII.6 In a continued endeavour to provide good quality banknotes, the Reserve Bank of India pursued its multi-pronged approach involving regular supply of fresh banknotes, speedier disposal of soiled banknotes and mechanisation of cash processing activity. Various options to enhance the life of banknotes so as to ensure the clean note policy, and measures to address the menace of counterfeit notes were continuously examined.

#### *Infrastructure for Currency Management*

VIII.7 Through its 18 Issue Offices, one sub-office at Lucknow, a currency chest at Kochi and a wide network of 4,247 currency chests and 4,017 small coin depots, the Reserve Bank carries out the issue of notes and management of currency. The Reserve Bank of India has agency agreement with SCBs, under which the currency chest facility is granted to them. Currency chests with Sub Treasury Offices (STOs) are being gradually phased out and their number has reduced to 11 during 2010-11. The State Bank of India and its associates continue to have the largest share (71 per cent) of currency chests followed by nationalised banks (26 per cent) (Table VIII.3).

**Table VIII.3: Currency Chests and Small Coin Depots**

Category	(as on December 31, 2010)	
	No. of Currency Chests	No. of Small Coin Depots
1	2	3
Treasuries	11	-
State Bank of India	2,120	2,050
SBI Associate Banks	886	868
Nationalised Banks	1,112	982
Private Sector Banks	110	109
Co-operative Banks	1	1
Regional Rural Banks	3	3
Foreign Banks	4	4
<b>Total</b>	<b>4,247</b>	<b>4,017</b>

### CLEAN NOTE POLICY

#### *Indent and Supply of Fresh Banknotes and Coins*

VIII.8 About 93 per cent of the indent for banknotes for 2010-11 was met by the printing presses. The total supply increased from 16.4 billion pieces in 2009-10 to 16.5 billion pieces in 2010-11. The supply in volume and value affirms the effective monitoring of supplies as also efficient allocation and management of the capacities at the presses (Table VIII.4 and 5).

#### *Disposal of Soiled Banknotes*

VIII.9 During 2010-11, as many as 13.9 billion pieces of soiled banknotes (21.4 per cent of banknotes in circulation) were processed and removed from circulation (Table VIII.6). The number of banknotes withdrawn from circulation and eventually disposed at the Reserve Bank offices

**Table VIII.4: Indent and Supply of Banknotes (April – March)**

Denomination	Volume (Million pieces)				
	2009-10		2010-11		2011-12
	Indent	Supply	Indent	Supply	Indent
1	2	3	4	5	6
₹5	1,000	548	-	674	-
₹10	5,000	5,060	5,000	5,143	5,700
₹20	800	820	1,500	1,104	600
₹50	1,000	1,004	2,000	1,602	1,200
₹100	4,000	3,969	4,300	3,420	6,100
₹500	4,000	4,008	4,000	4,130	2,000
₹1,000	1,000	1,007	1,000	467	2,000
<b>Total</b>	<b>16,800</b>	<b>16,416</b>	<b>17,800</b>	<b>16,540</b>	<b>17,600</b>

**Table VIII.5: Indent and Supply of Coins**

Denomination	Volume (Million pieces)					Value (₹ crore)			
	2009-10		2010-11		2011-12	2009-10		2010-11	
	Indent	Supply	Indent	Supply	Indent	Indent	Supply	Indent	Supply
1	2	3	4	5	6	7	8	9	10
50 paise	200	100	70	59	70	10	5	4	3
₹1	3,000	2,918	2,600	2,746	1,600	300	292	260	275
₹2	2,000	2,284	1,700	1,811	2,900	400	457	340	362
₹5	800	778	1,300	1,292	800	400	389	650	646
₹10	100	205	1,000	232	1,000	100	205	1,000	232
<b>Total</b>	<b>6,100</b>	<b>6,285</b>	<b>6,670</b>	<b>6,140</b>	<b>6,370</b>	<b>1,210</b>	<b>1,348</b>	<b>2,254</b>	<b>1,518</b>

increased during the year. This is in line with the on-going efforts for speedier removal of soiled banknotes from currency chests and augmenting the disposal at Reserve Bank offices.

VIII.10 Out of the 13.9 billion pieces of banknotes disposed during 2010-11, 8.05 billion pieces were processed through 54 Currency Verification and Processing Systems (CVPS). The remaining banknotes were disposed under the Dynamic Working Model (DWM).

VIII.11 To further augment the processing and disposal capacity of soiled notes, 5 new CVPS machines have been installed during the year in 5 select offices of the Reserve Bank.

*Measures to Improve the Quality of Banknotes in Circulation*

VIII.12 All currency chest branches are equipped with Note Sorting Machines (NSMs). Banks have been

**Table VIII.6: Disposal of Soiled Notes and Supply of Fresh Banknotes**

Denomination	Volume (Million pieces)					
	2008-09		2009-10		2010-11	
	Disposal	Supply	Disposal	Supply	Disposal	Supply
1	2	3	4	5	6	7
₹1,000	39	664	78	865	179	706
₹500	735	2,611	1,247	3,513	1,864	4,347
₹100	3,690	4,277	4,307	3,935	5,227	4,085
₹50	2,403	1,042	2,400	791	2,095	1,114
₹20	1,003	605	790	467	664	1,296
₹10	3,700	4,607	3,832	4,975	3,657	5,580
Up to ₹5	392	3	418	441	166	549
<b>Total</b>	<b>11,962</b>	<b>13,809</b>	<b>13,072</b>	<b>14,987</b>	<b>13,852</b>	<b>17,677</b>

**Note:** Supply indicates fresh notes supplied to currency chests and members of public .

advised to ensure that all notes received by them are processed before re-issuing them to public. In compliance to one of the recommendations of the High Level Group on Systems & Procedures for Currency Distribution, banks have been further directed that notes in the denomination of ₹100 and above are to be processed through machines conforming to “Note Authentication and Fitness Sorting Parameters” prescribed by Reserve Bank from time to time, before issuing them over the counters or through ATMs. Bank branches having average daily cash receipts of ₹50 lakh and above shall put to use such machines by end-March 2011.

VIII.13 As on April 2011, the banks have installed 4,091 NSMs in their branches in above categories. Further, the banks have also made arrangements for issue of machine processed notes for another 1,823 branches.

VIII.14 The above measure, besides promoting efficient Banknote sorting, is seen to provide an impetus to both the Clean Note Policy and the detection of counterfeit notes.

VIII.15 The Reserve Bank continued with its efforts to introduce polymer / plastic banknotes in the denomination of ₹10, on a “field trial” basis, in select locations of the country. While the process relating to the “field trial” is under progress, the Reserve Bank commissioned a study on the “environmental impact (Carbon Footprint) of cotton based banknotes *vis-a-vis* polymer based alternative”.

**COUNTERFEIT BANKNOTES**

VIII.16 Counterfeit banknotes detected during the year were higher in magnitude on account of

**Table VIII.7: Counterfeit Notes Detected**

(No. of pieces)

Year	Detection at Reserve Bank	Detection at other banks	Total
1	2	3	4
2008-09	55,830 (14.0)	342,281 (86.0)	398,111
2009-10	52,620 (13.1)	348,856 (86.9)	401,476
2010-11	45,235 (10.4)	390,372 (89.6)	435,607

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

heightened awareness amongst banks and increased use of Note Sorting Machines. Almost 90 per cent of the 0.4 million counterfeit notes identified were detected at bank branches, reflecting increased use of NSMs (Table VIII.7).

VIII.17 In conjunction with other steps to check the menace of counterfeit banknotes such as strengthening of security features, training to banks and other organisations, rationalisation of procedure for dealing with counterfeit currency (Box VIII.1), improvements in the area of mechanised processing of notes, etc., the Reserve Bank has also launched an awareness campaign on Indian banknotes.

VIII.18 Under this campaign, initially an ad film titled "*Paisa Bolta Hai*" in Hindi was launched on

Doordarshan in August, 2010. Subsequently, the film has been translated in 11 major Indian languages and is being shown over the regional channels of Doordarshan. The film's primary message to the common man is to form a habit of examining banknotes and it also aims at educating the general public (Aam Aadmi) about the security features of Indian banknotes. Future plans include campaigns through various media viz., other TV channels, radio, newspapers, etc.

VIII.19 The Reserve Bank has also prepared a microsite for the web page which has incorporated all information on genuine Indian banknotes for the benefit of the public. The Microsite, named "Paisa Bolta Hai", is displayed on the home page of the RBI website and can also be accessed from the URL <http://www.paisaboltahai.rbi.org.in/>

VIII.20 The government introduced the Coinage Bill, 2011 which has been passed by the Lok Sabha in March, 2011. The Bill, apart from seeking to consolidate the laws relating to coinage and the Mints, also endeavours to prohibit as also impose penalty on the melting or destruction of coins, unlawful making, or issue or possession of metal pieces to be used as money.

**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.

With the increase in incidence of counterfeit notes, individuals may come in possession of a counterfeit note without their knowledge of it being a counterfeit and unintentionally become a conduit for its circulation by presenting it to a bank or business establishment.

The High Level Group constituted by the Reserve Bank on Systems and Procedures for Currency Distribution, in its report in August 2009, had recommended rationalizing the

procedure with regard to the filing of FIR on detection of forged notes.

The matter was taken up with the Ministry of Home Affairs, Central Government and an in-principle decision has been taken to :

- i) Consider designating one nodal police station at each district for registration of cases of forged note offences. Correspondingly, banks would designate one nodal officer in a district with responsibility of registering such cases with police.
- ii) The nodal officer of the bank will register a single report to designate police station with detailed information where recovery of forged notes in 1 piece to 4 pieces in a single transaction.
- iii) In case of recovery of 5 or more pieces in a single transaction separate FIR would be filed.

While several states have designated nodal police stations, simplification of reporting system is under consideration of the Central Government.

## CUSTOMER SERVICE

VIII.21 A simplified Note Refund Rules, 2009, for exchange of soiled and mutilated / torn notes, came into force in August, 2009. These are simple, 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 was brought out as a booklet and distributed to all currency chests.

VIII.22 The Citizens' Charter containing detailed information on exchange of soiled and mutilated notes on public counters, procedure, cost, time for availing these services and mechanism for grievance redressal has been displayed on the Bank's website.

VIII.23 The RBI as the monetary authority of the country has initiated the documentation and preservation of its rich and varied legacy of coins through the Monetary Museum in Mumbai. The museum has also been envisioned as a window to RBI's outreach programme. With a display of around 8,000 coins and 730 currency notes depicting the cultural and historical heritage of the country, the museum was visited by nearly 27,468 visitors during 2010.

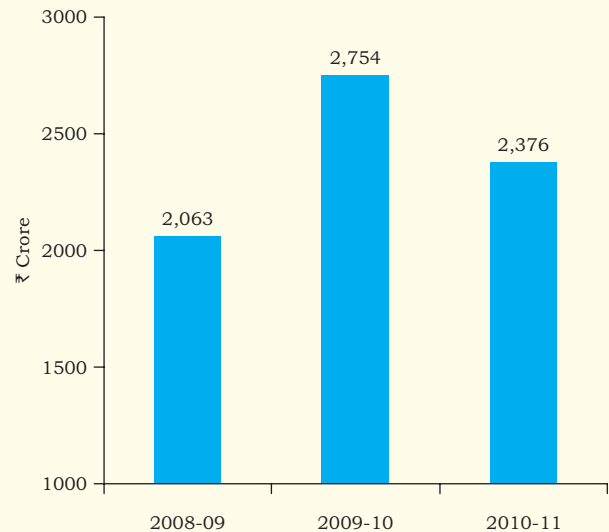
### INDIGENISATION OF PAPER, INK AND OTHER RAW MATERIALS FOR PRODUCTION OF BANKNOTES

VIII.24 The work relating to establishment of a paper mill as a joint venture between Bharatiya Reserve Bank Note Mudran Private Limited (BRBNMPL) and Security Printing & Minting Corporation of India Limited (SPMCIL) on 50:50 shareholding basis has been initiated. The first line of production with an annual capacity of 6000 MT is being setup at Mysore. The Reserve Bank, in consultation with the Government of India, is pursuing the goal of indigenisation of other critical inputs for production of banknotes.

### EXPENDITURE ON SECURITY PRINTING AND DISTRIBUTION

VIII.25 The expenditure incurred on security printing charges (note forms) in 2010-11 (July-June) decreased by ₹378 crore (13.7 per cent) mainly on

**Chart VIII.1: Cost of Security Printing**



account of decrease in supply of banknotes, in certain denominations, in 2010-11 *vis-a-vis* the indent (Chart VIII.1 and Table VIII.4).

VIII.26 Expenditure on remittance of treasure has increased from ₹37 crore in 2009-10 (July-June) to ₹45.5 crore in 2010-11 mainly on account of increased supply of banknotes / coins to the currency chests.

VIII.27 The Reserve Bank would continue to provide adequate quantity of banknotes and coins to the public. Suitable measures would be taken to further improve the customer service. Withdrawal of soiled notes and supply of clean banknotes would continue on priority with due emphasis on further progress of the currency operations through improvement of systems and leveraging of technology. Capacity creation for mechanised processing / distribution of banknotes and coins will receive high attention.

VIII.28 The Bank will continue with its sustained efforts towards mitigating the risk posed by counterfeiting through awareness campaigns, inter-agency coordination and rationalisation of systems and procedures. The Reserve Bank would also persist with its efforts to strengthen the security features of Indian banknotes so as to render them more difficult to counterfeit.