

# VIII

## CURRENCY MANAGEMENT

*Under the clean note policy, the Reserve Bank endeavours to ensure a steady supply of fresh banknotes. During 2011-12, 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. While the Indian currency acquired a unique symbol (₹) of its own in 2010 and thus acquired a place in the select club of countries with a symbol for their currency, a further step was taken during 2011-12 by incorporating this symbol on banknotes and coins.*

VIII.1 The Reserve Bank is the sole authority to issue banknotes in India. Although one rupee notes and coins of all denominations are issued by the government, they are put into circulation only through the Reserve Bank. Despite increasing spread of technology-driven non-cash modes of payment, the demand for banknotes and coins continues to rise. The Reserve Bank, in pursuing its clean note policy, endeavours to ensure a steady supply of fresh banknotes. It also continues with efforts to strengthen the security features of banknotes and increase public awareness so as to address the challenge of counterfeit notes. Recently, the unique symbol (₹) of the Indian currency was incorporated on banknotes and coins.

VIII.2 The challenges faced by the Reserve Bank in its currency operations include ensuring availability of adequate quantity of banknotes and coins in the system, ensuring a better quality of banknotes and ascertaining their genuineness. In keeping with the same, suitable steps were taken in 2011-12. Soiled and unfit banknotes were shredded and briquetted and hence removed from circulation. To ensure that only genuine banknotes were put into circulation, high priority continued to be accorded to prevention and detection of counterfeit notes in the banking system. Towards this end, banks were directed to enhance the use of technology. Further, the process of upgrading the security features of the banknotes was pursued with renewed vigour. Again, so as to encourage reporting of counterfeit notes, conscious efforts were made to simplify the administrative and legal

procedures. The Reserve Bank has also been examining various options to enhance the life of banknotes as part of its clean note policy.

### **BANKNOTES IN CIRCULATION**

VIII.3 At 12.5 per cent, the growth in value of banknotes outpaced the growth in volume terms (7.4 per cent) in 2011-12. Notes of denomination 500 and 1000 together accounted for 82 per cent of the total value of banknotes in circulation (Table VIII.1).

### **COINS IN CIRCULATION**

VIII.4 The Coinage Act, 2011 was passed by the Parliament and became effective from March 28, 2012. It replaced the Coinage Act, 1906. The Act has re-defined the legal tender character of coins as: (i) ₹1 and above – up to a sum of ₹1000, and (ii) 50 paise – up to a sum of ₹10. Besides consolidating the laws relating to coinage and the Mints, the Act prohibits and imposes a penalty on the melting or destruction of coins, unlawful making, and issue or possession of metal pieces to be used as money.

VIII.5 There was a marked decline in the volume and value of small coins in circulation in 2011-12 as coins of denomination of 25 paise and below ceased to be legal tender from June 30, 2011 (Table VIII.2). The supply of coins responded to the increase in demand from the public during 2011-12 (Box VIII.1). The demand was greater from the new sources of coin usage such as toll plazas, malls, Delhi Metro Rail, etc. In the wake of increasing numbers of complaints from various trade bodies

**Table VIII.1: Banknotes in Circulation  
(As at end-March)**

Denomination	Volume (Million pieces)			Value (₹ billion)		
	2010	2011	2012	2010	2011	2012
1	2	3	4	5	6	7
₹2 and ₹5	7,953 (14.1)	11,116 (17.2)	11,540 (16.2)	29 (0.4)	43 (0.5)	45 (0.4)
₹10	18,536 (32.8)	21,288 (33.0)	23,002 (32.2)	185 (2.4)	213 (2.3)	230 (1.9)
₹20	2,341 (4.1)	3,020 (4.7)	3,510 (4.9)	47 (0.6)	60 (0.7)	70 (0.6)
₹50	4,211 (7.4)	3196 (5.0)	3,488 (4.9)	211 (2.7)	160 (1.7)	174 (1.4)
₹100	13,836 (24.5)	14024 (21.7)	14,119 (19.8)	1,384 (17.6)	1,402 (15.0)	1,412 (11.6)
₹500	7,290 (12.9)	8,906 (13.8)	10,256 (14.8)	3,645 (46.2)	4,453 (47.6)	5,128 (48.7)
₹1,000	2,383 (4.2)	3027 (4.7)	3,469 (5.0)	2,382 (30.2)	3,027 (32.4)	3,469 (32.9)
<b>Total</b>	<b>56,549</b>	<b>64,577</b>	<b>69,382</b>	<b>7,883</b>	<b>9,358</b>	<b>10,528</b>

Note: Figures in parentheses represent per cent share in total.

and members of the public on unavailability of coins, the government has constituted a Committee

**Table VIII.2: Coins in Circulation  
(As at end-March)**

Denomination	Volume (Million pieces)			Value (₹ billion)		
	2010	2011	2012	2010	2011	2012
1	2	3	4	5	6	7
Small coin	54,738 (52.0)	54,797 (48.8)	14,785 (18.9)	15 (13.1)	15 (11.5)	7 (5.5)
₹1	29,461 (28.0)	32,675 (29.1)	34,414 (44.1)	30 (26.8)	33 (25.9)	34 (25.6)
₹2	13,198 (12.5)	15,342 (13.7)	18,201 (23.3)	26 (23.8)	31 (24.3)	36 (27.1)
₹5	7,760 (7.4)	9,070 (8.1)	9,981 (12.8)	39 (35.0)	45 (35.9)	50 (37.1)
₹10	149 (0.0)	300 (0.0)	648 (0.8)	1 (1.3)	3 (2.4)	6 (4.8)
<b>Total</b>	<b>1,05,306</b>	<b>1,12,184</b>	<b>78,029</b>	<b>111</b>	<b>127</b>	<b>135</b>

Note: Figures in parentheses represent per cent to total.

(Chairman: Dr. K.C. Chakrabarty, Deputy Governor, Reserve Bank) to examine the issues relating to the increase in demand for coins and supply/distribution bottlenecks.

### Box VIII.1 Demand for Coins

As complaints from the public mounted regarding non-availability of coins during 2011-12, the Reserve Bank undertook a quick survey to understand the usage of coins, market practices, circulation of coins, etc. The survey was conducted in February 2012 in twelve cities, viz., Mumbai, Delhi, Kolkata, Chennai, Bangalore, Lucknow, Ahmedabad, Dehradun, Ranchi, Jamnagar, Jabalpur and Mandya covering 1200 respondents (100 from each city). The respondents were classified into two major segments, viz., general public (60 per cent of the respondents) and traders (40 per cent) and were chosen from different trading/occupational categories.

In order to assess the availability of coins, the respondents were asked about the difficulty experienced in obtaining coins and the stock of coins with them. The respondents were also asked how often in the past month during a transaction they had faced a situation where neither the buyer nor the seller had the coins required for the transaction. The salient findings of the survey based on sample estimates are as follows:

- The per capita average stock of coins with the general public is 40 pieces, of which 34 pieces (88 per cent) are ₹1, ₹2 and ₹5 coins. However, nearly 40 per cent of the general public has a stock of only 10 coins or less.

- Although traders keep a higher average stock of 173 pieces, of which 153 pieces are ₹1, ₹2 and ₹5 coins, the bottom 56 per cent traders have a stock of 40 coins or less.
- Majority of the respondents reported ₹1 (44 per cent) and ₹5 (34 per cent) coins as the most needed coins.
- About 77 per cent of the general public and 69 per cent of traders reported that counter-party transactions were the main source of coins. The other source of coins is commission agents.
- Only 3 per cent of the general public and 4 per cent of traders reported banks as a source of coins. Only 8 per cent of the respondents reported having approached banks for coins in the past one month. The survey also found that most of the people (about 84 per cent) did not deposit coins in banks.
- The segment of general public having a stock of at least 40 coins reported less than 20 per cent instances of a shortage situation.
- In the case of traders, the relationship between the stock of coins and the incidence of coin shortage was not well established.

(Contd....)

- Nearly 56 per cent of respondents reported difficulty in giving correct coin change as coins are not easily available from any source. Another 27 per cent cited reasons such as not wanting to carry coins, while another 11 per cent did not want to spend time in selecting, counting and giving exact change. The remaining 6 per cent reported that shopkeepers did not accept small coins as change.

- About 44 per cent of the respondents reported that shopkeepers gave some items as a substitute for coins.

As this survey was in the nature of a quick assessment, the survey results may be subject to sampling errors arising from small sample size and purposive sampling, recall ability of the respondents and accuracy of the information given by the respondents. However, it has provided pointers to better addressing the demand for coins from the public.

## CURRENCY OPERATIONS

### Infrastructure for Currency Management

VIII.6 The Reserve Bank carries out the issue of notes and management of currency through its 18 issue offices, one sub-office at Lucknow, a currency chest at Kochi and a wide network of 4,221 currency chests and 4,018 small coin depots. There is an agency agreement with SCBs, under which the currency chest facility is granted to them. Currency chests with sub-treasury offices are being gradually phased out and their number reduced to 11 during 2011-12. During the year a revised agreement was entered into with the banks maintaining currency chests that *inter-alia* stipulates various services to be provided to the public/linked bank branches and the Reserve Bank's right to take penal action in case poor conduct of this function was observed/ reported. The State Bank and its associates have the largest share (70 per cent) of currency chests

followed by nationalised banks (27 per cent) (Table VIII.3).

VIII.7 The Monetary Policy Statement for 2012-13 announced that the distribution of bank notes and coins would be channelised only through currency chests/bank branches, thus bringing the related services closer to customers. Banks are expected to strengthen their distribution systems and procedures so as to cater to the growing needs of the common man.

### CLEAN NOTE POLICY

#### Indent (Order for) and Supply of Fresh Banknotes and Coins

VIII.8 The note printing presses supplied almost 100 per cent of the indented banknotes for 2011-12. The total supply of notes in volume terms increased by 6.3 per cent in 2011-12 (Tables VIII.4 and VIII.5).

**Table VIII.3: Currency Chests and Small Coin Depots as at end-December 2011**

Category	No. of Currency Chests	No. of Small Coin Depots
1	2	3
Treasuries	11	-
State Bank of India	2,192	2,118
State Bank Associate Banks	778	775
Nationalised Banks	1,124	1,009
Private Sector Banks	107	107
Co-operative Banks	1	1
Regional Rural Banks	3	3
Foreign Banks	5	5
<b>Total</b>	<b>4,221</b>	<b>4,018</b>

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

Denomination	Volume (Million pieces)				
	2010-11		2011-12		2012-13 P Indent
	Indent	Supply	Indent	Supply	
1	2	3	4	5	6
₹5	-	674	-	2	-
₹10	5,000	5,143	5,700	6,252	5,400
₹20	1,500	1,104	600	1,045	800
₹50	2,000	1,602	1,200	949	1,500
₹100	4,300	3,420	6,100	5,079	6,100
₹500	4,000	4,130	2,000	2,330	2,500
₹1,000	1,000	467	2,000	1,927	1,000
<b>Total</b>	<b>17,800</b>	<b>16,540</b>	<b>17,600</b>	<b>17,584</b>	<b>17,300</b>

P: Provisional.

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

Denomination	Volume (Million pieces)				
	2010-11		2011-12		2012-13 P
	Indent	Supply	Indent	Supply	Indent
1	2	3	4	5	6
50 paise	70	59	70	107	50
₹1	2,600	2,746	1,600	1,480	1,550
₹2	1,700	1,811	2,900	3,343	3,200
₹5	1,300	1,292	800	761	850
₹10	1,000	232	1,000	403	1,000
<b>Total</b>	<b>6,670</b>	<b>6,140</b>	<b>6,370</b>	<b>6,094</b>	<b>6,650</b>

P: Provisional.

**Disposal of Soiled Banknotes**

VIII.9 During 2011-12, 13.8 billion pieces of soiled banknotes (21.3 per cent of the total in circulation as on March 31, 2011) were processed and removed from circulation (Table VIII.6). Of this, 8.5 billion pieces were processed through 59 Currency Verification and Processing Systems (CVPS). The remaining banknotes were disposed under other modes. The number of banknotes withdrawn from circulation and eventually disposed at the Reserve Bank offices was almost same as the previous year, in line with the ongoing efforts for speedier removal of soiled banknotes from currency chests and augmenting the disposal at Reserve Bank offices.

**Table VIII.6: Disposal of Soiled Banknotes and Supply of Fresh Banknotes (Million pieces)**

Denomination	April-March					
	2009-10		2010-11		2011-12	
	Disposal	Supply	Disposal	Supply	Disposal	Supply
1	2	3	4	5	6	7
₹1,000	78	865	179	706	375	1,440
₹500	1,247	3,513	1,864	4,347	1,994	5,560
₹100	4,307	3,935	5,227	4,085	5,577	1,091
₹50	2,400	791	2,095	1,114	1,578	1,522
₹20	790	467	664	1,296	562	4,237
₹10	3,832	4,975	3,657	5,580	3,584	3,379
Up to ₹5	418	441	166	549	101	371
<b>Total</b>	<b>13,072</b>	<b>14,987</b>	<b>13,852</b>	<b>17,677</b>	<b>13,772</b>	<b>17,600</b>

**Measures to Improve the Quality of Banknotes in Circulation**

VIII.10 Banks have been advised to ensure that all notes received by them are processed on note sorting machines (NSMs) before being re-issued to the public. Further, notes in the denomination of ₹100 and above are to be processed through machines conforming to the “note authentication and fitness sorting parameters” prescribed by the Reserve Bank, before being issued over the counter or through ATMs. Bank branches with average daily cash receipts of ₹5 million were advised to use such machines by end-March 2011. During 2011-12, banks were further directed to cover every single branch of SCBs including RRBs to ensure compliance.

VIII.11 As on December 31, 2011, banks had installed 10,394 NSMs. Further, banks had also made arrangements for issue of machine processed notes in other 1,706 branches. The above measure, besides promoting efficient banknote sorting, provides an impetus to both the clean note policy and the detection of counterfeit notes.

**COUNTERFEIT BANKNOTES**

VIII.12 Due to higher awareness and use of NSMs, the number of counterfeit banknotes detected has been increasing. Reflecting the increased use of NSMs, bank branches accounted for almost 93 per cent of the total counterfeit notes detected in 2011-12 (Table VIII.7).

**Table VIII.7: Counterfeit Notes Detected (No. of Pieces)**

Year	Detection at		Total
	Reserve Bank	Other banks	
1	2	3	4
2009-10	52,620 (13.1)	3,48,856 (86.9)	4,01,476
2010-11	45,235 (10.4)	3,90,372 (89.6)	4,35,607
2011-12	37,690 (7.2)	4,83,465 (92.8)	5,21,155

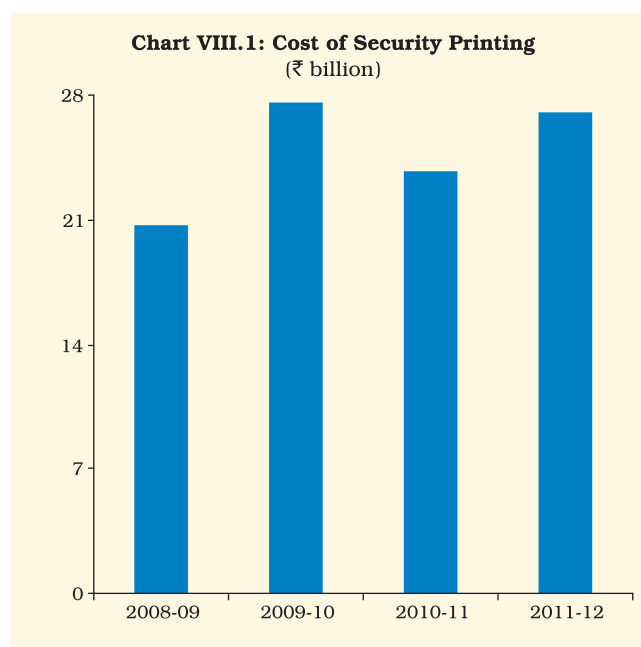
**Note:** Figures in parentheses represent the per cent share in total.

VIII.13 During 2011-12, banks were instructed to stop re-issue of banknotes of ₹1,000 denomination of the Mahatma Gandhi Series 2000 and ₹100 denomination of the Mahatma Gandhi Series 1996 in a prompt, smooth and non-disruptive manner without any inconvenience to the public. Such banknotes, however, continued to be legal tender and acceptable for all transactions and no member of the public was denied exchange facility. Further, in order to ensure that all cases of detection of counterfeit notes at the bank branches/treasuries were promptly reported to the police authorities, it was decided to revise the procedure to be followed on detection of counterfeit banknotes at bank branches, treasuries and sub-treasuries. The Reserve Bank, in co-ordination with the central government, has been pursuing with all state governments to nominate a nodal police station in every district for the purpose of reporting the detection of counterfeit notes. Further, banks and treasuries were advised that: (i) for cases of detection of counterfeit notes up to four pieces, in a single transaction, a consolidated report in the prescribed format should be sent to the police authorities at the end of the month; and (ii) for cases of detection of counterfeit notes of five or more pieces, in a single transaction, FIR should be lodged with the nodal police station/police authorities as per jurisdiction.

#### EXPENDITURE ON SECURITY PRINTING AND DISTRIBUTION

VIII.14 The expenditure incurred on security printing charges (note forms) in 2011-12 (July-June) increased by ₹3.3 billion (13.8 per cent) mainly on account of an increase in the supply of banknotes compared to the previous year (Chart VIII.1 and Table VIII.4). Expenditure on remittance of treasure has increased from ₹455 million in 2010-11 (July-June) to ₹528 million in 2011-12 mainly due to the increased supply of banknotes/coins to the currency chests.

VIII.15 Abiding by the Reserve Bank's directives, banks exercise adequate caution while processing



banknotes so as to ensure that the banking channel is not used as a conduit for circulation of counterfeit notes. With the increasing incidence of counterfeit notes, the need for adequately trained personnel at banks to identify such notes has increased manifold. Trained personnel to man the counters is not only important for the detection/identification of counterfeit notes but can also serve as a point of awareness for members of the public. While the Reserve Bank and banks have been conducting training programmes, in the emergent scenario these may not be adequate. It was therefore proposed that the Indian Banks Association (IBA), in consultation with the banks should ensure that all bank personnel handling cash are trained on features of genuine Indian banknotes, with the objective to train all such personnel within three years. The Reserve Bank will also provide faculty support and training material.

VIII.16 In order to align the currency management systems with the emerging needs of the time and leveraging technology, the critical areas of operational importance have been revisited. A roadmap has been prepared to realign its business processes for greater efficiency and productivity.