

Speech of Finance Minister

Foundation Laying Ceremony for Security Paper Mill at Mysore, Karnataka

Mysore: March 22, 2010

Dr. Subbarao, Governor, RBI;

Mrs Thorat, Deputy Governor, RBI;

Members of the Board of Bharatiya Reserve Bank Note Mudran Pvt. Ltd. (BRBNMPL) and the Security Printing and Minting Corporation of India Ltd. (SPMCIL);

Friends, ladies and gentlemen

2. It gives me immense pleasure to be here today, in this historic city of Mysore, on the occasion of laying the foundation stone for the project for establishing a state-of-the art currency notepaper production facility. I congratulate Ministry of Finance and the RBI for having conceptualized the architecture of this project, and put the implementation thereof on a fast track, in a relatively short period of time.

3. Currency distribution is a key sovereign function and among the primary functions of a central bank. It is also the most visible of its functions, as it touches directly and immediately the common person. Hence, simply put, the currency notes continue to occupy a key position in financial transactions being carried out in the economy.

4. As per Section 25 of the RBI Act, 1934, the design, form and material of bank notes are to be approved by the Central Government on the basis of advice tendered by the RBI. Section 22 of the Act gives RBI the sole right to issue bank notes in India. The preamble of the Act enjoins the RBI to regulate the issue of bank notes and operate the currency system of the country. The wholly owned enterprises of the Central Government and RBI, namely, SPMCIL and BRBNMPL are responsible for meeting the demand of Indian Currency Notes. Thus, the Central Government and RBI have co-equal responsibility for administration of currency related matters. This production unit, which has been

contemplated as a joint venture entity between SPMCIL and BRBNMPL, in equal proportion, reflects the need to maintain and further strengthen the co-operative endeavour, in this arena, between the Government and RBI.

5. Managing currency is a strategic function. One of the main challenges is to be vigilant against the menace of counterfeit currency, which, if unchecked, has severe consequences. Circulation of fake notes, in large numbers, can lead to erosion of the value of legally earned wealth of citizens, fuel inflation through oversupply of money, and adversely affect the security of the country by surreptitious funding of illegal and unlawful activities. India is especially vulnerable in this regard, since much of the counterfeiting takes place as State sponsored activity by some countries and forces inimical to our interests. While the magnitude of counterfeit currency in circulation has shown an increasing trend in recent years, the magnitude of the problem is still within manageable proportion, and, the total estimated fake currency is a miniscule proportion of the money supply. However, the growing threat casts a responsibility upon us to ensure that our currency has high integrity, is not prone to duplication, and, its distinctive features remain inviolate.

6. For a vast and growing country like India, indigenisation of various inputs for manufacturing currency notes, namely, security features, paper and ink, is cardinal to ensuring their integrity. However resilient the processes may be, doubts will always persist so long as we have to depend on foreign suppliers for meeting the requirements of ingredients that go into the making of bank notes. India has posted several achievements in science and technology – not just in the recent times, but right from the inception of human civilization. Therefore it is not beyond our capacity to aim for producing all the building blocks that go into production of currency notes.

7. While we are wholly self reliant in the printing of currency notes, we are largely dependent on imports for meeting the paper requirements. Presently, the annual requirement of paper for printing of Banknotes is around 18,000 tonnes for printing of around 15-16 billion pieces of notes, with 95% of this being imported from foreign suppliers. This requirement is expected to increase further which implies that in the absence of adequate domestic manufacturing capacity, our dependence on imports will increase. Besides, on account of

increase in demand of banknote paper globally, without corresponding increase in the production capacity of paper, the country may soon face a situation of shrinking supplies and concomitant higher prices.

8. I am given to understand that this manufacturing facility at Mysore with a production capacity of 6,000 tonnes per annum will be the first production line of the Joint Venture. I am also told that the capacity will be increased to 12,000 tonnes in the second phase. These capacities will significantly redress the demand supply gap for currency paper in India and herald the start of the process which will eventually make India completely self reliant in all the security inputs required for manufacture of currency notes. Indigenisation of banknote paper manufacturing will provide the benefits of backward integration in the form of assured, smooth and timely supplies, cost savings, employment generation, and an effective deterrent to counterfeiting. Hence, this project is of great strategic significance and we must remain resolutely committed to its success.

9. The effort at indigenization should be carried to its logical end and subsume security features and ink as well. I have been told that modest capacity exists within SPMCIL for manufacturing of security intaglio ink. This capacity should be augmented and self-sufficiency in ink production needs to be targeted.

10. The security features being used in bank notes are technologically advanced and developed products, a result of large investments, over long periods of time, in research and development (R&D). These products are procured from specialist suppliers through customized exclusivity agreements, which protect the interests of the procuring country. At present, our capacities in this area are minimal. However, looking forward, with the objective of complete indigenisation, it is imperative to create a state of the art R & D institution. This institution shall, on a continual basis, keep pace with the innovations happening in this field, and incubate capacities – either in the existing institutions of higher research and learning, or, through Greenfield ventures – in this significant area.

11. I have been informed that significant potential for development of indigenous technologies exists in other related areas as well, such as plated coins, machinery and related software.

12. Looking to the importance of ensuring self sufficiency in all aspects of security products, I have constituted a high level review committee, one of the terms of reference of which is to suggest a roadmap for progressive indigenization of various inputs, including high end machinery and security features. I am keenly awaiting the recommendations of this committee, after which, I plan to develop a roadmap for indigenization, in consultation with the RBI, which will enable us to meet the requirements of security inputs, ensure integrity of our currency and effectively thwart menace of counterfeiting.

13. I understand that a detailed timeline has been formulated for implementing this project. It would be important to adhere to the milestones and I look forward to the successful and timely completion of the project. I urge the Ministry of Finance and the RBI to monitor implementation of this important endeavour at periodic intervals, to ensure that the project is completed in time bound manner. I may also be kept informed in case of any issues that require intervention at my level.

14. I once again congratulate all of you on this occasion and hope that this landmark Project will achieve its goals and serve the nation's best interests.