

VIII

CURRENCY MANAGEMENT

Currency management during 2017-18 was geared towards managing the process of remonetisation and processing and reconciliation of specified banknotes (SBNs). The year was marked by issuance of banknotes of ₹10 and ₹50 under the new series and introduction of ₹200, a new denomination. New banknotes under the Mahatma Gandhi (New) Series highlighting the cultural heritage and scientific achievements of the country were issued. Sustained efforts were made towards indigenisation of banknotes production with sophisticated security features.

VIII.1 The focus of currency management during 2017-18 broadly remained on remonetisation, processing and reconciliation of SBNs received at the Reserve Bank from circulation. This humungous task of processing and verification of SBNs was successfully achieved with the co-ordinated efforts put in by the work force of the Issue Department of the Reserve Bank. The process involved working in two shifts under strenuous conditions, maintaining detailed records and planning effectively without compromising on other functions of currency management. Ceaseless efforts towards remonetisation continued during the year which saw issuance of banknotes of ₹10 and ₹50 under the new series and introduction of ₹200, a new denomination.

TRENDS IN CURRENCY

Banknotes in Circulation

VIII.2 The value of banknotes in circulation increased by 37.7 per cent over the year to ₹18,037 billion as at end-March 2018. The volume of banknotes, however, increased by 2.1 per cent. In value terms, the share of ₹500 and ₹2000 banknotes, which had together accounted for 72.7 per cent of the total value of banknotes in circulation at end-March 2017, increased to 80.2 per cent as at end-March 2018. The share of newly introduced ₹200 banknotes in the total

value of banknotes in circulation was 2.1 per cent as at end-March 2018. In volume terms, ₹10 and ₹100 banknotes constituted 51.6 per cent of total banknotes in circulation as at end-March 2018 as compared to 62.0 per cent at end-March 2017 (Table VIII.1).

Table VIII.1: Banknotes in Circulation

Denomination (₹)	Volume (million pieces)			Value (₹ billion)		
	Mar 2016	Mar 2017	Mar 2018	Mar 2016	Mar 2017	Mar 2018
1	2	3	4	5	6	7
2 & 5	11,626 (12.9)	11,557 (11.5)	11,425 (11.2)	45 (0.3)	45 (0.3)	44 (0.2)
10	32,015 (35.5)	36,929 (36.8)	30,645 (29.9)	320 (1.9)	369 (2.8)	307 (1.7)
20	4,924 (5.4)	10,158 (10.2)	10,016 (9.8)	98 (0.6)	203 (1.5)	200 (1.1)
50	3,890 (4.3)	7,113 (7.1)	7,343 (7.2)	194 (1.2)	356 (2.7)	367 (2.0)
100	15,778 (17.5)	25,280 (25.2)	22,215 (21.7)	1,578 (9.6)	2,528 (19.3)	2,222 (12.3)
200	-	-	1,853 (1.8)	-	-	371 (2.1)
500	15,707 (17.4)	5,882 (5.9)	15,469 (15.1)	7,854 (47.8)	2,941 (22.5)	7,734 (42.9)
1000	6,326 (7.0)	89 (...)	66 (...)	6,326 (38.6)	89 (0.7)	66 (0.4)
2000	-	3,285 (3.3)	3,363 (3.3)	-	6,571 (50.2)	6726 (37.3)
Total	90,266	100,293	102,395	16,415	13,102	18,037

-: Not Applicable. ...: Negligible.

Note: Figures in parentheses represent the percentage share in total volume/value.

Source: RBI.

Coins in Circulation

VIII.3 Coins in circulation witnessed a small increase during the year compared to the position as at end-March 2017. The total value of coins in circulation increased by 2.4 per cent in 2017-18 as against 14.7 per cent last year, while the total volume of coins in circulation increased by 2.4 per cent as compared to 8.5 per cent in the previous year. As on March 31, 2018, coins of ₹1, ₹2 and ₹5 together constituted 83.3 per cent of the total volume of coins in circulation, while in value terms, these accounted for 77.7 per cent (Table VIII.2).

Currency Management Infrastructure

VIII.4 The currency management infrastructure consists of a network of 19 issue offices of the Reserve Bank, 3,975 currency chests (including sub-treasury offices and a currency chest of the Reserve Bank at Kochi) and 3,654 small coin depots of commercial, co-operative and

Table VIII.3: Currency Chests and Small Coin Depots as at end-March 2018

Category	No. of Currency Chest	No. of Small Coin Depot
1	2	3
State Bank of India	2,575	2,447
Nationalised Banks	1,206	1,022
Private Sector Banks	172	168
Co-operative Banks	5	5
Foreign Banks	4	4
Regional Rural Banks	7	7
Sub-treasury Offices	5	0
Reserve Bank of India	1	1
Total	3,975	3,654

Source: RBI.

regional rural banks spread across the country (Table VIII.3).

Indent and Supply of Currency

VIII.5 On account of demonetisation, 2016-17 was an exceptional year and the after-effects continued in 2017-18 as well. Accordingly, the indent for 2017-18 was higher by 9.1 per cent as compared to last year. However, the supply of banknotes was lower than that in the previous year, but was noticeably higher compared to the pre-demonetisation year (Table VIII.4).

VIII.6 The indent and supply of coins during the year was considerably lower as compared to last year with only 5,852 million pieces of coins supplied against an indented quantity of 7,712 million pieces in 2017-18 *vis-à-vis* 9,691 million pieces supplied against an indent of 15,000 million pieces in 2016-17 (Table VIII.5).

VIII.7 Banknotes under the Mahatma Gandhi (New) Series were launched from November 2016, highlighting the cultural heritage and scientific achievements of the country. During the year, in continuation of the earlier release

Table VIII.2: Coins in Circulation

Denomination (₹)	Volume (million pieces)			Value (₹ billion)		
	Mar 2016	Mar 2017	Mar 2018	Mar 2016	Mar 2017	Mar 2018
1	2	3	4	5	6	7
Small coins	14,788 (13.8)	14,788 (12.7)	14,788 (12.4)	7 (3.2)	7 (2.8)	7 (2.7)
1	44,876 (41.9)	48,347 (41.6)	49,636 (41.7)	45 (20.6)	48 (19.2)	50 (19.5)
2	29,632 (27.7)	32,059 (27.6)	32,855 (27.6)	59 (27.1)	64 (25.6)	66 (25.8)
5	14,089 (13.2)	15,783 (13.6)	16,650 (14.0)	70 (32.1)	79 (31.6)	83 (32.4)
10	3,703 (3.4)	5,205 (4.5)	5,049 (4.2)	37 (17.0)	52 (20.8)	50 (19.5)
Total	107,088	116,182	118,978	218	250	256

Note: 1. Figures in parentheses represent the percentage share in total volume/value.
2. Figures in parentheses may not add up to 100 due to rounding off of numbers.

Source: RBI.

Table VIII.4: Indent and Supply of Banknotes by BRBNMPL and SPMCIL (April-March)

(Million pieces)

Denomination (₹)	2015-16		2016-17		2017-18	
	Indent	Supply	Indent	Supply	Indent	Supply
1	2	3	4	5	6	7
5	0	0	0	0	0	0
10	4,000	5,857	3,000	2,785	4,237	4,313
20	5,000	3,252	6,000	4,118	2,458	2,051
50	2,050	1,908	2,125	2,700	3,784	2,793
100	5,350	4,910	5,500	5,738	8,068	3,170
200	-	-	-	-	2,694	2,832
500 (MG series)	5,600	4,291	5,725	2,013	-	-
500 (new design)	-	-	-	7,260	9,213	9,693
1000	1,900	977	2,200	925	-	-
2000	-	-	3,500	3,504	151	151
Total @	23,900	21,195	28,050	29,043	30,605	25,003

-: Not Applicable. @: Total excludes ₹1.

Note: BRBNMPL: Bharatiya Reserve Bank Note Mudran Private Limited.

SPMCIL: Security Printing and Minting Corporation of India Limited.

Source: RBI.

of banknotes in the denominations of ₹2000 and ₹500, banknotes of ₹200, ₹50 and ₹10 denominations of the same series were also introduced (Table VIII.6).

Disposal of Soiled Notes

VIII.8 During the year, 27.7 billion pieces of banknotes were disposed as against 12.5 billion pieces last year, mainly on account of

accelerated processing of SBNs of ₹500 and ₹1000 denominations (Table VIII.7).

Trends in Counterfeit Notes Detected in the Banking System

VIII.9 During 2017-18, 522,783 pieces of counterfeit notes were detected in the banking system, of which 63.9 per cent were detected by banks other than the Reserve Bank (Table VIII.8).

Table VIII.5: Indent and Supply of Coins by Mints (April-March)

(Million pieces)

Denomination	2015-16		2016-17		2017-18	
	Indent	Supply	Indent	Supply	Indent	Supply
1	2	3	4	5	6	7
50 Paise	40	30	30	30	-	-
₹1	6,100	3,753	6,300	3,548	1,830	2,008
₹2	4,000	2,899	4,200	2,461	1,184	1,539
₹5	2,100	1,492	2,270	2,429	1,698	1,545
₹10	2,000	1,084	2,200	1,223	3,000	760
Total	14,240	9,258	15,000	9,691	7,712	5,852

-: Not Applicable.

Source: RBI.

Table VIII.6: Introduction of Banknotes under Mahatma Gandhi (New) Series

Denomination (₹)	Motif-Theme	Base colour	Dimension
1	2	3	4
200	Sanchi Stupa	Bright Yellow	66 mm x 146 mm
50	Hampi with Chariot	Fluorescent Blue	66 mm x 135 mm
10	Sun Temple, Konark	Chocolate Brown	63 mm x 123 mm

Source: RBI.

Detection of counterfeit notes was 31.4 per cent lower than the previous year. Counterfeit notes detected in SBNs decreased by 59.7 and 59.6 per cent in the denominations of ₹500 and ₹1000, respectively, as the same comprised only the residual part of SBN deposits processed during the year 2017-18. Compared to the previous year, there was an increase of 35 per cent in counterfeit notes detected in the denomination of ₹100, while there was a noticeable increase of 154.3 per cent in counterfeit notes detected in the denomination of ₹50. In the Mahatma Gandhi (New) Series of banknotes in the denominations of ₹500 and ₹2000, counterfeit notes detected during 2017-18 were 9,892 and 17,929 as against

Table VIII.7: Disposal of Soiled Banknotes (April-March)

Denomination (₹)	(Million pieces)		
	2015-16	2016-17	2017-18
1	2	3	4
1,000	625	1,514	6,847
500	2,800	3,506	20,024
100	5,169	2,586	105
50	1,349	778	83
20	849	546	114
10	5,530	3,540	497
Up to 5	46	34	8
Total	16,368	12,503	27,678

Note: Figures in the column may not add up to the total due to rounding off of the numbers.

Source: RBI.

Table VIII.8 : Number of Counterfeit Notes Detected (April-March)

Year	(No. of pieces)		
	Detection at Reserve Bank	Banks other than the Reserve Bank	Total
1	2	3	4
2015-16	31,765 (5.0)	601,161 (95.0)	632,926 (100.0)
2016-17	32,432 (4.3)	729,640 (95.7)	762,072 (100.0)
2017-18	188,693 (36.1)	334,090 (63.9)	522,783 (100.0)

Note: 1. Figures in parentheses represent the percentage share in total.

2. Does not include counterfeit notes seized by the police and other enforcement agencies.

Source: RBI.

199 and 638, respectively during the previous year (Table VIII.9). Out of the total Fake Indian Currency Notes (FICNs) detected, the share of FICNs detected at the Reserve Bank was higher at 36.1 per cent as compared to 4.3 per cent during the previous year. This was because of processing of large volume of SBNs withdrawn from circulation.

Table VIII.9: Denomination-wise Counterfeit Notes Detected in the Banking System (April-March)

Denomination (₹)	(No. of pieces)		
	2015-16	2016-17	2017-18
1	2	3	4
2 and 5	2	80	1
10	134	523	287
20	96	324	437
50	6,453	9,222	23,447
100	221,447	177,195	239,182
200	-	-	79
500 (MG series)	261,695	317,567	127,918
500 (New design)	-	199	9,892
1000	143,099	256,324	103,611
2000	-	638	17,929
Total	632,926	762,072	522,783

-: Not Applicable.

Source: RBI.

Expenditure on Security Printing

VIII.10 The total expenditure incurred on security printing during the year (July 2017 - June 2018) stood at ₹49.12 billion as against ₹79.65 billion in 2016-17.

Agenda for 2017-18: Implementation Status*Introduction of New Security Features*

VIII.11 The global Pre-Qualification Bid Notice (PQBN) notified by the Reserve Bank on June 19, 2015 was cancelled during the year and a fresh PQBN was notified on July 17, 2017 in view of the introduction of Mahatma Gandhi (New) Series of banknotes with reduced dimensions of banknotes and growing emphasis on 'Make in India' as per the Public Procurement (Preference to Make in India) Order, 2017 issued by the Government of India. The security features notified for procurement included security threads with colour shift and moving images, colour shifting inks, foil patch, security fibres, ink and paper based taggants, advanced watermark and micro-perforation.

Review of Currency Distribution and Exchange Scheme (CDES)

VIII.12 The Reserve Bank has introduced incentives for installation of various machines in addition to performance based incentives in order to encourage banks to use technology in currency operations for providing better customer service. The incentives for installation of machines were rationalised in May 2016 and installation of only Cash Recyclers and ATMs dispensing lower denomination notes, was incentivised. As the purpose of installing these machines was largely met, it was decided to withdraw the incentives with effect from March 02, 2018.

Procurement of Currency Verification and Processing System (CVPS)

VIII.13 To augment its banknote processing capacity, the Reserve Bank initiated the tendering process for replacement of 50 CVPS machines with new ones during the year.

Amendment of Note Refund Rules

VIII.14 The introduction of a new series of banknotes with different dimensions as compared to the earlier series notes and the introduction of new denominations of banknotes of ₹2000 and ₹200 necessitated an amendment to the Reserve Bank of India (Note Refund) Rules, 2009. The required changes are expected to be notified through a Gazette Notification shortly.

Introduction of Varnished Banknotes – Field Trial

VIII.15 In consultation with the Government of India, the Reserve Bank has been exploring the feasibility of increasing the life of Indian banknotes. International experience suggests that varnishing of banknotes is expected to increase their life and durability, reduce the banknote replacement requirements and thereby lower the overall security printing expenditure. It is proposed to introduce varnished banknotes on a field trial basis.

Constitution of High Level Committees

VIII.16 As announced in the fourth bi-monthly monetary policy statement on October 4, 2016, the entire gamut of security of treasure in transit was reviewed through two committees, viz., the High Level Committee on Currency Storage and Movement (HLCCSM) (Chairman: Shri N. S. Vishwanathan, Deputy Governor) and the Committee on Currency Movement (CCM)

(Chairman: Shri Deepak Mohanty, Executive Director). An Expert Group (Chairman: Shri C. Krishnan, former Executive Director) was also constituted to look into the quality control processes adopted for banknote production (Box VIII.1). The recommendations of the CCM and Expert Group are in various stages of implementation.

Specified Banknotes (SBNs)

VIII.17 In terms of the Specified Banknotes (Cessation of Liabilities) Act 2017, a grace period was provided to Indian citizens who were outside India between November 9 and December 30, 2016 to deposit SBNs held by them at any of the five Reserve Bank Offices (Mumbai, New Delhi, Chennai, Kolkata, and Nagpur), subject to certain conditions. In terms of the Government of

India notification, the grace period for a resident of India was available till March 31, 2017 and that for non-resident Indian citizens till June 30, 2017. Under this scheme, around 77,000 tenders were received, of which around 68 per cent were found to be eligible for payment.

VIII.18 During the year, the Government of India notified on May 12, 2017 the Specified Bank Notes (Deposit of Confiscated Notes) Rules, 2017 under which SBNs confiscated or seized by law enforcement agencies or produced before a court on or before December 30, 2016 may be tendered at any office of the Bank for deposit in a bank account or exchange of the value thereof with legal tender, subject to conditions stipulated in the said Rules. These Rules are not applicable for SBNs seized or confiscated after December 30, 2016. No cut-off date is prescribed in the

Box VIII.1

Committees on Currency Movement

Pursuant to the fourth bi-monthly monetary policy statement for the year 2016-17 issued on October 04, 2016, the Reserve Bank had constituted two committees, viz., the High Level Committee on Currency Storage and Movement (HLCCSM) and the Committee on Currency Movement (CCM) to review the movement of notes up to currency chest level and further downstream, respectively. The HLCCSM has submitted an interim report. Meanwhile an international expert has been appointed to assist the committee. The CCM has since submitted its report, suggesting measures to make the retail currency circulation system in India, more efficient and secure. The committee has also made recommendations relating to upgradation of currency chests and security measures for cash movement. The recommendations of the committee are in various stages of implementation.

Group of Experts for Review of Systems and Processes

Currency management is one of the core central banking functions of the Reserve Bank. The responsibility of maintaining integrity and quality of banknotes and

ensuring public confidence rests with the Bank. As an issuer of banknotes, the Reserve Bank has to ensure that the quality control, systems and processes relating to printing at the presses and technology employed, both at BRBNMPL, a wholly owned subsidiary of the Bank and SPMCIL owned by the Government of India, are standardised and are at par with international standards.

With a view to examining the systems, processes and quality control mechanisms in place at the note printing presses and paper mills, an Expert Group (Chairman: Shri C. Krishnan, former Executive Director) was constituted to conduct an audit of the entire gamut of note printing and all its attendant processes. The Expert Group has submitted its report and has made recommendations for standardisation of raw material procurement, quality assurance, note printing processes, security features, etc., across all the presses and the paper mills.

Rule for tendering such SBNs with the Reserve Bank.

VIII.19 The Government of India has also notified on June 20, 2017 the Specified Banknotes (Deposit by Banks, Post Offices and District Central Co-operative Banks) Rules, 2017, allowing the Bank to accept within a period of 30 days from the date of notification and subject to certain conditions specified in the said Rules, SBNs from (i) any bank or Post Office that had received SBNs from its customers on or before December 30, 2016, and (ii) DCCBs that had received SBNs from their customers between November 10-14, 2016. The facility to accept eligible SBNs in terms of these Rules was made available at 19 Regional Offices of the Bank till July 19, 2017.

VIII.20 The SBNs received were verified, counted and processed in the sophisticated high speed CVPS for accuracy and genuineness and shredded and briquetted in the Shredding and Briquetting system. The processing capacity was augmented by resorting to night shifts (along with day shifts), working for 6 days a week, using 8 additional machines available with commercial banks and taking 7 machines on lease from vendors. Diversion of SBNs from Issue Circles having surplus SBNs to Issue Circles having surplus processing capacity was also effected for ensuring near simultaneous completion of processing at all the Issue Offices of the Bank. The processing of SBNs has since been completed at all centres of the Reserve Bank. The total SBNs returned from circulation is ₹15,310.73 billion.

Public Awareness Campaign

VIII.21 In order to create awareness, remove misconceptions and allay fears in the mind

of the public regarding coins, the Reserve Bank undertook an SMS awareness campaign during the year. The legal tender character of ₹10 coins of different designs was also reiterated *vide* a press release on the Reserve Bank's website.

Agenda for 2018-19

Implementation of e-Kuber

VIII.22 At present, management of inventory relating to currency operations, reporting of currency chest transactions and accounting thereof, generation of MIS reports, etc., are being carried out through an Integrated Computerised Currency Operations & Management System (ICCOMS) at the Reserve Bank and currency chests. ICCOMS is going to be replaced with a currency management module in the Bank's Core Banking Solution (e-Kuber) which will improve inventory management, facilitate near real time accounting of currency chest transactions, enable better tracking of currency in circulation and cover all related activities of currency chests, link offices and Regional Offices of the Reserve Bank.

Laboratory for Banknote Quality Assurance

VIII.23 Based on the recommendation of the Group of Experts for Review of Systems and Processes relating to banknote production (Chairman: Shri C. Krishnan), the Department of Currency Management has initiated the process of setting up a laboratory at Mumbai for banknote quality assurance.

Automation of Banknote Handling Process

VIII.24 Considering the huge volume of banknotes that is being handled/likely to be handled in future, there is an emergent need

for upgrading the infrastructure and processes for currency management in the country by inducting modern technology and automation. The Reserve Bank will explore the possibility of mechanising the processes by adopting suitable technology.

BHARATIYA RESERVE BANK NOTE MUDRAN PRIVATE LIMITED (BRBNMPL)

VIII.25 Established in 1995 as a wholly owned subsidiary of the Reserve Bank to augment the country's banknote production capacity, BRBNMPL has contributed immensely to achieving strategic objectives in the field of

currency management. The achievements of the company during the year included supplying around two-thirds of the total banknotes received by the Reserve Bank, indigenously designing the Mahatma Gandhi (New) Series banknotes and continuing with extensive automation and Enterprise Resource Planning. Along with SPMCIL, BRBNMPL has set up Bank Note Paper Mill India Private Limited (BNPMIPL), an entity producing Cylinder Watermarked Bank Note (CWBN) paper required for banknote production. BRBNMPL has set up an ink factory at Mysuru, which will shortly go into mass production.