

CHAPTER 40

EXCHANGE, COINAGE AND CURRENCY

Exchange:

Foreign exchange reserves are an important component of the Balance of Payment (BoP) and an essential element in the analysis of an economy's external position. India's foreign exchange reserves comprise foreign currency assets (FCA), gold, special drawing rights (SDRs) and reserve tranche position (RTP) in the International Monetary Fund (IMF).

Special Drawing Rights (SDRs): SDRs are international foreign exchange reserve assets. Allocated to nations by the International Monetary Fund (IMF), a SDR represents a claim to foreign currencies for which it may be exchanged in times of need. Although denominated in US dollars, the nominal value of an SDR is derived from a basket of currencies; in this case a fixed amount of Japanese Yen, US Dollars, British Pounds and Euros. SDRs are the IMF's unit of account and are denoted with the ISO 4217 currency code XDR.

Reserve Tranche Position (RTP): The primary means of financing the IMF is through members' quotas. Each member of the IMF is assigned a quota, part of which is payable in SDRs or specified usable currencies ("reserve assets"), and part in the member's own currency. The difference between a member's quota and the IMF's holdings of its currency is a country's Reserve Tranche Position (RTP).

Foreign currency assets: Foreign currency assets include foreign exchange reserves less gold holdings, special drawing rights and India's reserve position in the IMF.

Foreign exchange reserves are accumulated when there is absorption of the excess foreign exchange flows by the RBI through intervention in the foreign exchange market, aid receipts, interest receipts, and funding from the International Bank for Reconstruction and Development (IBRD), Asian Development Bank (ADB), International Development Association (IDA), etc. Both the US dollar and euro are intervention currencies. Foreign currency assets are maintained in major currencies like the US dollar, euro, pound sterling, Australian dollar and Japanese yen. Foreign exchange reserves are denominated and expressed in the US dollar only.

In 2009-10, three major developments have taken place in the area of foreign exchange reserves management. The first relates to investment of foreign exchange reserves in infrastructure projects. Pursuant to the announcement made in the Union Budget 2007-08, about using a part of the foreign exchange reserves for financing domestic infrastructure requirements, the India Infrastructure Finance Company Limited was set up as a wholly owned subsidiary in London, UK, called IIFC (UK) in April 2008. The second development relates to the IMF's allocation of SDRs to member countries including India. The third major development was the purchase of gold from the IMF by the RBI.

The nominal effective exchange rate (NEER) and real effective exchange rate (REER) indices are used as indicators of external competitiveness of the country over a period of time. NEER is the weighted average of bilateral nominal exchange rates of the home currency in terms of foreign currencies. REER is defined as a weighted average of nominal exchange rates adjusted for home and foreign country relative price differentials. REER captures movements in cross-currency exchange rates as well as inflation differentials between India and its major trading partners. The RBI has been constructing six currency (US dollar, euro for eurozone, pound sterling, Japanese yen, Chinese renminbi and Hong Kong dollar) and 36 currency indices of NEER and REER.

Coinage:

Coinage of India, issued by Imperial dynasties and smaller middle kingdoms of India began during the 1st millennium BCE, and consisted mainly of copper and silver coins in its initial stage. Scholars remain divided over

the origins of Indian coinage. What is known, however, is that metal currency was minted in India well before the Mauryan empire (322–185 BCE), and as radio carbon dating indicates, before the 5th century BCE. The tradition of Indian coinage was further enriched by the coming of Islam. The East India Company introduced uniform coinage in the 19th century, and these coins were later imitated by the modern nation states of Republic of India, Pakistan, Sri Lanka, and Bangladesh.

British casting of coins was the first ever instance of the arrival of modern coins in India. The earliest coins minted from Surat under British East India Company were moulded in European style. However, owing to much unpopularity, the British obtained the right to belt their own rupees in the name of the Mughal emperor. History of Indian coins states in the chronological order that the ones issued after 1840, had held the portrait of Queen Victoria. The first coinage under the crown was issued in 1862 and in 1877 Queen Victoria assumed the title of Empress of India. Edward VII ascended after Queen Victoria and the coins issued, bore his model. The Indian Coinage Act was passed in 1906, which ordered the establishment of Mints as well as the coins that would be issued and the criteria that would be maintained (Rupee 180 grains, Silver 916.66 standard; Half Rupee 90 grains, Quarter Rupee 45 grains). However, acute shortage of silver in consequence of World War I, led the British Government to issue paper currency of One Rupee and Two and a half Rupees. This significant move was very much followed as a pathbreaking lineage towards the historic system of coining under Republic India.

The Government of India has the sole right to mint coins. The responsibility for coinage vests with the Government of India in terms of the Coinage Act, 1906 as amended from time to time. The designing and minting of coins in various denominations is also the responsibility of the Government of India. Coins are minted at the four India Government Mints at Mumbai, Alipore (Kolkata), Saifabad (Hyderabad), Cherlapally (Hyderabad) and NOIDA (UP). Because of the increasing demand for coins, Indian government was forced to mint coins in foreign countries. The coins are issued for circulation only through the Reserve Bank in terms of the RBI Act. The Ashok-Stambha (Ashoka's Pillar) is a motif on all Republic of India coins. The symbol is a representation of peace and non-violence. The coins of India post-independence could broadly be categorised as:

Frozen series 1947-1950: This represented the currency arrangements during the transition period up to the establishment of the Indian Republic.

Decimal series: In September, 1955 that the Indian Coinage Act was amended for the country to adopt a metric system for coinage. The Act came into force with effect from 1st April 1957. The rupee remained unchanged in value and nomenclature. It, however, was now divided into 100 'paise'. For public recognition, the new decimal paisa was termed 'Naya Paisa' till 1st June 1964 when the term 'Naya' was dropped.

India's First Bimetallic Rupees 10 Coin: India's much awaited first ever bimetallic Rupees 10 coin is now issued and available for sale on some auction websites. A recent press release from Reserve Bank of India mentioned that there will be two themes of Rupees 10 coins Unity in Diversity Connectivity and Information technology.

Coins in India are presently being issued in denominations of 10 paise, 20 paise, 25 paise, 50 paise, one rupee, two rupees and five rupees. Coins upto 50 paise are called 'small coins' and coins of Rupee one and above are called 'Rupee Coins'. Coins can be issued up to the denomination of Rupee 1000 as per the Coinage Act, 1906. Coins are received from the Mints and issued into circulation through its Regional Issue offices/sub-offices of the Reserve Bank and a wide network of currency chests and coin depots maintained by banks and Government treasuries spread across the country. The RBI Issue Offices/sub-offices are located at various cities (Ahmedabad, Bangalore, Belapur (Navi Mumbai), Bhopal, Bhubaneshwar, Chandigarh, Chennai, Guwahati, Hyderabad, Jammu, Jaipur, Kanpur, Kolkata, Lucknow, Mumbai, Nagpur, New Delhi, Patna and Thiruvananthapuram). These offices issue coins to the public directly through their counters and also send coin remittances to the currency chests and small coin depots. Special coins minted in memory of special events or people and these are referred to as commemorative coins. Commemorative coins can be for collectors and also for circulation. They can be found in various denominations. Some of commemorative coins include coins depicting Mahatma Gandhi, Jawaharlal Nehru, B. R. Ambedkar, 1982-Asian Games, Sardar Vallabhbhai Patel, Subhash Chandra Bose, Sri Aurobindo, Chittaranjan Das, and Chhatrapati Shivaji and other leaders.

Currency:

The Indian rupee (Hindi: रुपया) (sign: ₹; code: INR) is the official currency of India. The issuance of the currency is controlled by the Reserve Bank of India. The banknotes are available in a nominal value of 5, 10, 20, 50, 100, 500 and 1000 rupee. In July 2010, the Indian Cabinet selected a new symbol for the Indian rupee (₹). It is derived from Devanagari "Ra" and looks like the Roman "R" without the stem. The Cabinet selected the definitive symbol on 15th July 2010. The parallel lines at the top (with white space between them) make an allusion to the tricolor Indian flag and also depict an equality sign which symbolizes the nation's desire to reduce economic disparity. At present, notes in India are issued in the denomination of ₹ 5, ₹ 10, ₹ 20, ₹ 50, ₹ 100, ₹ 500 and ₹ 1000. These notes are called bank notes as they are issued by the Reserve Bank of India (RBI). The security features of the bank notes are as under:

- Watermark — White side panel of notes has Mahatma Gandhi watermark.
- Security thread — All notes have a silver security band with inscriptions visible when held against light which reads Bharat in Hindi and RBI in English.
- Latent image — Higher denominational notes (Rupees 20 onwards) display the note's denominational value in numerals when held horizontally at eye level.
- Microlettering — Numeral denominational value is visible under magnifying glass between security thread and latent image.
- Fluorescence — Number panels glow under ultra-violet light.
- Optically variable ink — Notes of ₹ 500 and ₹ 1000 have their numerals printed in optically variable ink. Number appears green when note is held flat but changes to blue when viewed at angle.
- Back-to-back registration — Floral design printed on the front and the back of the note coincides and perfectly overlap each other when viewed against light.
- EURion constellation

Each banknote has its amount written in 17 languages (English & Hindi on the front, and 15 others on the back) illustrating the diversity of the country. The current series began in 1996. Currency notes are printed at the Currency Note Press, Nashik, Bank Note Press, Dewas, Bharatiya Note Mudra Nigam (P) Limited presses at Salboni and Mysore and at the Watermark Paper Manufacturing Mill, Hoshangabad.

Notes in Circulation: Comprise the notes held outside the Reserve Bank, i.e. by the public, banks, treasuries, etc. One rupee notes and coins issued by the Government of India are excluded.

Gold coins & bullion and foreign securities: As required in Section 33(2) of the Reserve Bank of India Act, the aggregate value of the gold coin, gold bullion and foreign securities held in the Issue Department at any time should not be less than ₹ 2.0 Billion. Of this, the aggregate value of the gold coin and gold bullion should not be less than ₹ 1.15 Billion.

Foreign Security: Represents securities payable in the currency of any foreign country which is a member of the International Monetary Fund.

Government of India Rupee Securities: These are securities of any maturity issued by the Central Government in respect of public loans and also include rediscounted treasury bills and Government of India adhoc treasury bills issued to the Reserve Bank. The securities are valued monthly at the market rates on the last working day of the month.

Total Money Supply (M1) consists of currency with the public (notes and coins in circulation less cash in hand with banks) and deposit money of the public.

Notes: Comprise the notes issued by the Government of India upto April 1935 and the Reserve Bank since then, less the notes held in the Banking Department of the Reserve Bank. These comprise therefore, the notes, held outside the Reserve Bank i.e., by the public, banks, treasuries, etc., and are net of return of about ₹ 0.43 Billion of Indian notes from Pakistan upto April 1985.

Rupee Coin used in Table 40.5: Represents the face value of the whole rupees held at the offices of the Issue Department of the Reserve Bank of India and in currency chests at offices and branches of the Bank and its agencies and sub-agencies including Treasury agencies.

Rupee coin used in Table 40.6: As in the case of notes, holdings in the Banking Department of the Reserve Bank of India are excluded, but Rupee coin held by Government Treasuries as part of Treasury balances and those held by banks have been included. Ten Rupee commemorative coins issued since October 1969, two Rupee coins issued since November 1982 and five Rupee coins issued since November 1985 are also included under Rupee coins.

Small coins: The circulation of small coins as presented in table 30.4 includes also small coins held by the Government, Treasuries and banks. As in the case of Rupee coins, holdings of small coins in the Banking Department of the Reserve Bank of India are excluded. Figures relate to the last day of the period.

Cash in hand with banks: Relates to such holdings of commercial and co-operative banks coming under the purview of the Banking Regulation Act, 1949.

Highlights:

- The total foreign exchange reserves in Indian Currency increased from ₹ 1972 billion in 2000-01 to ₹ 12838.7 billion in 2008-09. The value of gold reserves increased from ₹ 127.1 billion in 2000-01 to ₹ 487.93 billion in 2008-09, whereas, foreign currency assets increased from ₹ 1844.82 billion to ₹ 12300.66 billion during same period.
- The exchange rate of Rupee in US\$ which was 45.684 in 2000-01 stood at 45.993 in 2008-09, whereas, it increased in Pound Sterling from 67.552 to 78.316 in same period. The exchange rate of Rupee in Euro increased from 41.483 in 200-01 to 65.058 in 2008-09.
- While Nominal Effective Exchange Rate (NEER) of 6 currencies decreased from 77.43 in 2000-01 to 64.87 in 2008-09, the NEER for 36 currencies increased from 92.12 to 94.67 during same period. The Real Effective Exchange Rate (REER) of 6 currencies increased from 102.82 in 2000-01 to 104.47 in 2008-09, whereas, the REER for 36 currencies decreased from 100.09 to 94.32 in same period.
- The number of coins minted in India Government Mint, Kolkata increased from 701.13 million in 2000-01 to 1443.80 million in 2009-10, whereas, their value increased from ₹ 1158.18 million in 2000-01 to ₹ 3046.88 million in 2009-10. Similarly, the number of coins minted in India Government Mint, Mumbai increased from 656.75 million in 2000-01 to 1574.75 million in 2009-10, whereas, their value increased from ₹ 1037.04 million to ₹ 3495.24 million in same period.
- The notes issued increased from ₹ 2129.36 billion in 2000-01 to ₹ 7882.99 billion in 2009-10, whereas, notes in circulation increased from ₹. 2128.51 billion to ₹ 7882.79 billion during same period.
- The total money supply increased from ₹ 3794.50 billion in 2000-01 to ₹ 14858.91 billion in 2009-10. The currency with public increased from ₹ 2095.50 billion in 2000-01 to ₹ 7680.48 billion in 2009-10, whereas, the deposit money of the public increased from ₹ 1698.99 billion to ₹ 7179.43 billion during the same period.
- The circulation of coins increased from 73.78 billion pieces in 2000-01 to 100.01 billion peices in 2009-10, whereas, their value increased from ₹ 52.42 billion to ₹ 99.57 billion during same period.

This chapter contains the following tables:

Table 40.1: presents year-wise foreign exchange reserves in Indian Currency and US Dollar since 2000-01.

Table 40.2: presents year-wise exchange rate of rupee vis-a-vis selected currencies of the world since 2000-01.

Table 40.3: presents year-wise trends in nominal and real effective exchange rate of rupee since 2000-01.

Table 40.4: presents year-wise number of coins minted since 2000-01.

Table 40.5: presents year-wise statistics of notes in circulation in India since 2000-01.

Table 40.6: presents year-wise money stock measures since 2000-01.

Table 40.7: presents year-wise movements in circulation of coins since 2000-01.