

UNIT 14 – BANKING - A Brief on CURRENCY SYSTEM IN INDIA

Dear Readers,

Today we are providing you all some important points on our Currency system as this is one of the important topic within Banking Awareness. We are expecting questions from this portion. So, enjoy the post.

Present Denomination of Bank Notes:

At present, banknotes in India are issued in the denomination of Re.1, Rs.5 Rs.10, Rs.20, Rs.50, Rs.100, Rs.500 and Rs.1000. These notes are called banknotes as they are issued by the Reserve Bank of India (Reserve Bank).

Denomination of Bank Notes & Coins:

The Reserve Bank can also issue banknotes in the denominations of five thousand rupees and ten thousand rupees, or any other denomination that the Central Government may specify. There cannot, though, be banknotes in denominations higher than ten thousand rupees in terms of the current provisions of the Reserve Bank of India of Act, 1934. Coins can be issued up to the denomination of Rs.1000.



Role of Government of India in Currency System:

In terms of Section 25 of RBI Act, 1934 the design of banknotes is required to be approved by the Central Government on the recommendations of the Central Board of the Reserve Bank of India. The responsibility for coinage vests with the Government of India on the basis of the Coinage Act, 1906 as amended from time to time. The Government of India also attends to the designing and minting of coins in various denominations.

How much currency to be produced?

The Reserve Bank decides the volume and value of banknotes except Re. 1 note to be printed each year. The quantum of banknotes that needs to be printed, broadly depends on the requirement for meeting the demand for banknotes due to inflation, GDP growth, replacement of soiled banknotes and reserve stock requirements.

Who decides the coins issue?

The Government of India decides the quantity of coins to be minted on the basis of indents(official order) received from the Reserve Bank.



How does the Reserve Bank estimate the demand for banknotes?

The Reserve Bank estimates the demand for banknotes on the basis of the growth rate of the economy, the replacement demand and reserve stock requirements by using statistical models/techniques.

What is a currency chest?

To facilitate the distribution of banknotes and rupee coins, the Reserve Bank has authorized select branches of scheduled banks to establish Currency Chests. These are actually storehouses where banknotes and rupee coins are stocked on behalf of the Reserve Bank.

What is a small coin depot?

Some bank branches are also authorized to establish Small Coin Depots to stock small coins. The Small Coin Depots also distribute small coins to other bank branches in their area of operation.

What are soiled, mutilated and imperfect banknotes?

(i) "soiled note:" means a note which, has become dirty due to usage and also includes a two piece note pasted together wherein both the pieces presented belong to the same note, and form the entire note.

(ii) Mutilated banknote is a banknote, of which a portion is missing or which is composed of more than two pieces.

(iii) Imperfect banknote means any banknote, which is wholly or partially, obliterated, shrunk, washed, altered or indecipherable but does not include a mutilated banknote.

Can soiled and mutilated banknotes be exchanged for value?

Yes. Such banknotes can be exchanged for value.

Clean Note Policy:

Reserve Bank of India has been continuously making efforts to make good quality banknotes available to the members of public. To help RBI and banking system, the members of public are requested to ensure the following:

a) Not to staple the banknotes

- b) Not to write / put rubber stamp or any other mark on the banknotes
- c) Store the banknotes safely to prevent any damage

Note:

1) Seeking to spread awareness among public about fake notes, the Reserve Bank has launched a website explaining ways to detect counterfeit notes. With a tagline 'Pehchano Paise Ki Boli, Kyunki Paisa Bolta Hai', the website- www.paisaboltahai.rbi.org.in -- gives visual presentation with pointers on currency notes of 10, 20, 50, 100, 500 and 1,000 rupee denominations.

2) MINIMUM RESERVE SYSTEM

The Reserve Bank has the sole right to issue currency notes, except one rupee notes which are issued by the Ministry of Finance. The RBI follows a minimum reserve system in the note issue. Initially, it used to keep 40 per cent of gold reserves in its total assets. But, since 1957, it has to maintain only Rs. 200 crores of gold and foreign exchange reserves, of which gold reserves should be of the value of Rs. 115 crores.

3) After a gap of over 20 years, Re 1 note has been released in the country and it bears the signature of Finance Secretary Rajiv Mehrishi. Incidentally, the note was released at Shrinathji temple in Nathdwara, Rajasthan, on March 6 by Mehrishi.

