Your Guide to Money Matters

Money as a means of payment, consists of coins, paper money and withdrawable bank deposits. Today, credit cards and electronic cash form an important component of the payment system. For a common person though, money simply means currency and coins. This is so because in India, the payment system, especially for retail transactions still revolves mainly around currency and coins. Here is an attempt to answer some of the Frequently Asked Questions on Indian Currency.

A) Some Basics

History of Coins / currency:

I. Coins

The first documented coinage seems to have started with 'Punch Marked' coins issued between the 7th-6th Century BC and 1st Century AD. The coinage can be classified into the following periods:

a. Ancient
b. Medival
c. Mughal
d. Late pre-colonial
e. British India
f. Republic India
g. Others.

India won its independence on August 15, 1947. During the period of transition India retained the monetary system and the currency and coinage of the earlier period. India brought out its distinctive coins on 15th August, 1950.

Coins in India are presently being issued in denominations of 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 Rs.1000 as per the Coinage Act, 1906.

II. Currency:

Financial Instruments and 'Hundies' in India have a venerable history. Paper Money, in the modern sense, traces its origins to the late eighteenth century with the issues of private banks as well as those of semi-government banks. The Paper Currency Act of 1861 conferred upon Government of India the monopoly of Note Issue bringing to end banknote issues of Private and Presidency Banks. Government of India continued to issue currency notes till the Reserve Bank of India (RBI) was established on 1st April, 1935. Reserve Bank issued banknotes in January 1938 when the first Five Rupee banknote was issued bearing the portrait of George VI. This was followed by Rs. 10 in February, Rs. 100 in March and Rs. 1,000 and Rs. 10,000 in June 1938. The George VI series continued till 1947 and thereafter as a frozen series till 1950 when post independence banknotes were issued, with the Ashoka Pillar watermark.

Banknotes in the Mahatma Gandhi Series were introduced in 1996 and were issued in a phased manner in the denominations of Rs.5, Rs.10, Rs.20, Rs.50, Rs.100, Rs.500 and Rs.1000.

Banknotes in MG series 2005, in the denomination of Rs.10, Rs.20, Rs.50, Rs.100 Rs.500, and Rs.1000 with additional / new security features are presently being issued.

What is the Indian currency called?

The Indian currency is called the Indian Rupee (INR) and the coins are called paise. One Rupee consists of 100 paise.

What are the present denominations of banknotes in India?

At present, banknotes in India are issued in the denomination of 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). The printing of notes in the denominations of Re.1, Rs. 2 and Rs.5 has been discontinued as these denominations have been coinised. However, such banknotes issued earlier can still be found in circulation and these banknotes continue to be legal tender.

Can banknotes and coins be issued only in these denominations?

Not necessarily. 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.

Demonetization of higher denomination banknotes.

Rs. 1000 and Rs.10000 banknotes, which were then in circulation were demonetized in January 1946, primarily to curb unaccounted money. The higher denomination banknotes in Rs.1000, Rs.5000 and Rs.10000 were reintroduced in the year 1954, and these banknotes (Rs.1000, Rs.5000 and Rs.10000) were again demonetized in January 1978.

What are the present available denominations of coins in circulation in India?

Presently 25 paise, 50 paise, one rupee, two rupees and five rupee coins are being issued. Coins up to 50 paise are called 'small coins' and coins of Rupee one and above are called 'Rupee Coins'. Though the coins in the denomination of 1 paise, 2 paise, 3 paise, 5 paise, 10 paise and 20 paise may still be in circulation, due to lack of demand these coins are not being issued.

What is legal tender?

The coins issued under the authority of Section 6 of The Coinage Act, 1906, shall be legal tender in payment or on account i.e. provided that a coin has not been defaced and has not lost weight so as to be less than such weight as may be prescribed in its case: - (a) coin of any denomination not lower than one rupee shall be legal tender for any sum, (b) half rupee coin shall be legal tender for any sum not exceeding ten rupees, (c) any other coin shall be legal tender for any sum not exceeding one rupee [Section 13 of The Coinage Act, 1906].

Similarly, the One Rupee notes issued under the Currency Ordinance, 1940 are also legal tender and included in the expression Rupee coin for all the purposes of the Reserve Bank of India Act, 1934.

Every banknote issued by Reserve Bank of India (Rs.2, Rs.5, Rs.10, Rs.20, Rs.50, Rs.100, Rs.500 and Rs.1000) shall be legal tender at any place in India in payment or on account for the amount expressed therein, and shall be guaranteed by the Central Government, subject to provisions of sub-section (2) Section 26 of RBI Act, 1934.

What is the meaning of "I promise to pay" clause?

As per Section 26 of Reserve Bank of India Act, 1934, the Bank is liable to pay the value of banknote. This is payable on demand by RBI, being the issuer. The Bank's obligation to pay the value of banknote does not arise out of a contract but out of statutory provisions.

The promissory clause printed on the banknotes i.e., "I promise to pay the bearer an amount of X" is a statement which means that the banknote is a legal tender for X amount. The obligation on the part of the Bank is to exchange a banknote for coins of an equivalent amount.

Why is One Rupee liability of the Government of India?

The Government of India derives authority to issue Rupee coins from the Coinage Act. As such the rupee coins issued by Government constitute the liabilities of the Government.

B) Currency Management.

What is the role of the Reserve Bank of India in currency management?

The Reserve Bank derives its role in currency management from the Reserve Bank of India Act, 1934.The Reserve Bank manages currency in India. The Government, on the advice of the Reserve Bank, decides on various denominations of banknotes to be issued. The Reserve Bank also co-ordinates with the Government in the designing of banknotes, including the security features. The Reserve Bank estimates the quantity of banknotes that are likely to be needed denomination-wise and accordingly, places indent with the various printing presses. Banknotes received from banks and currency chests are examined and those fit for circulation are reissued and the others (soiled and mutilated) are destroyed so as to maintain the quality of banknotes in circulation.

What is the role of Government of India?

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.

Who decides on the volume and value of banknotes to be printed and on what basis?

The Reserve Bank decides the volume and value of banknotes 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 on the quantity of coins to be minted?

The Government of India decides the quantity of coins to be minted on the basis of indents 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.

How does the Reserve Bank reach the currency to people?

The Reserve Bank presently manages the currency operations through its 18 Issue offices located at Ahmedabad, Bangalore, Belapur, Bhopal, Bhubaneswar, Chandigarh, Chennai, Guwahati, Hyderabad, Jaipur, Jammu, Kanpur, Kolkata, Mumbai, Nagpur, New Delhi, Patna, Thiruvananthapuram, one sub-office at Lucknow, a currency chest at Kochi and a wide net work of currency chests. These offices receive fresh banknotes from the banknote printing presses. The Issue Offices of RBI send fresh banknote remittances to the designated branches of commercial banks.

The Reserve Bank offices located at Hyderabad, Kolkata, Mumbai and New Delhi (Mint linked Offices) initially receive the coins from the mints. These offices then send them to the other offices of the Reserve Bank. The banknotes and rupee coins are stocked at the currency chests and small coins at the small coin depots. The bank branches receive the banknotes and coins from the Currency Chests and Small Coin Depots for further distribution among the public.

What is a currency chest?

To facilitate the distribution of banknotes and rupee coins, the Reserve Bank has authorised 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. As on June 30, 2006, there were 4428 Currency Chests and 4102 Small Coin Depots. The currency chest branches are expected to distribute banknotes and rupee coins to other bank branches in their area of operation.

What is a small coin depot?

Some bank branches are also authorised 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 happens when the banknotes and coins return from circulation?

Banknotes and coins returned from circulation are deposited at the Issue offices of the Reserve Bank. The Reserve Bank subjects these to processing, authenticates banknotes for their genuineness, segregates them into notes fit for reissue and those which are not, for cancellation. The banknotes which are fit for reissue are sent back in circulation and those which are unfit for reissue are destroyed by way of shredding after completion of examination process. Similarly, coins received back from circulation are either reissued or are sent to the Mints for melting.

From where can the general public obtain banknotes and coins?

Banknotes and coins can be obtained in exchange at any of the offices of the Reserve Bank and at all the designated branches of banks.

C) Current Issues

Is there a way to reduce dependence on cash?

Cash continues to be the predominant payment means of transactions in India. A compositional shift is underway in the form of a gradual replacement of lower denomination banknotes by higher denomination banknotes, particularly Rs.100 and Rs.500. Instruments such as cheques, credit and debit cards, electronic funds transfer are at present supplementing the use of banknotes and as the use of these gains popularity, the growth rate of the demand for currency is expected to slow down.

Steps taken to increase the supply of banknotes and coins.

Several steps have been taken to augment the supply of banknotes and coins. Some of these are:

- The existing banknote printing presses and the mints owned by the Government have been modernised.
- Bharatiya Reserve Bank Note Mudran (P) Ltd., was set up as a fully owned subsidiary of the Reserve Bank of India on February 03, 1995. Under its aegis two banknote printing presses with the state-of-the-art technology, one each at Mysore (Karnataka) and Salboni (West Bengal), commenced production from June 01, 1996 and December 11, 1996, respectively.
- To bridge the demand-supply gap, the Government had, as a one-time measure, imported banknotes, in the year 1997-98.
- Government of India had also imported rupee coins during 2000-2003 to supplement the supply of coins from the four mints. The overall position of both banknote and coin supply is comfortable now.
- The Regional Offices of RBI launched aggressive campaigns for providing exchange facility to the members of public.

Why are Re.1, Rs.2, Rs.5 banknotes not being printed?

Volume-wise, the share of such small denomination banknotes in the total banknotes in circulation was very high but in terms of value they constituted a very small percentage. The average life of these banknotes was found to be less than a year. The cost of printing and servicing these banknotes was, thus, not commensurate with their life, and printing of these banknotes was, therefore, discontinued. These denominations were coinised. However, Rs.5 was re-introduced in 2001 to supplement the gap between the demand and supply of coins in this denomination. The printing of Rs.5 banknotes has been discontinued from the year 2005.

D) Soiled and Mutilated Banknotes

What are soiled and mutilated banknotes?

Soiled banknotes are banknotes, which have become dirty and limp due to excessive use. Mutilated banknotes are banknotes, which are torn, disfigured, burnt, washed, eaten by white ants, etc. A double numbered banknote cut into two pieces but on which both the numbers are intact is now being treated as soiled banknote.

Can such banknotes be exchanged for value?

Yes. All bank branches have been authorised to provide the facility of exchanging soiled banknotes.

How much value would one get in exchange of soiled or mutilated banknotes?

Soiled banknotes are exchanged full value. Payment of value of mutilated banknotes is governed by the Reserve Bank of India (Note Refund) Rules, 1975. These Rules have been framed under Section 28 of the Reserve Bank of India Act, 1934. The public can get value for these banknotes as a matter of grace as laid down in the Rules, after adjudication. Currently, provisions exist for paying either full, half or no value as far as banknotes in the denomination for Rs.10 and above are concerned; as regards Re.1, Rs.2 & Rs.5, a tenderer can get either full or no value depending upon the condition of the banknote.

What types of banknotes are not eligible for payment under the Note Refund Rules?

The following banknotes are not payable under the Reserve Bank of India (Note Refund) Rules 1975. A banknote, which is

- less than half the area of the full banknote
- devoid of the major portion of the number on an undivided area, i.e., the prefix and three digits or four digits of the number in banknotes up to and inclusive of Rs.5; in respect of banknotes of Rs.10 and above, where this inadequacy is present at both the numbering panels.
- cancelled by any office of the Reserve Bank or against which the value has already been paid
- found to be forged / counterfeit
- deliberately cut, mutilated or tampered carrying extrinsic words or visible representation intended to convey or capable of conveying any message of a political character

What if a banknote is found to be non-payable?

Non-payable banknotes are retained by the receiving banks and sent to the Reserve Bank where they are destroyed.

Where are soiled/mutilated banknotes accepted?

All banks are authorised to accept soiled banknotes across their counters and pay the exchange value. They are expected to offer this service even to non-customers. All designated branches of commercial banks are authorised to adjudicate and pay value in respect of mutilated banknotes, in terms of the Reserve Bank of India (Note Refund) Rules, 1975. The RBI has also authorised all commercial bank branches to treat certain banknotes in 'two pieces' as soiled banknotes and pay the exchange value.

E) Banknotes since Independence.

i. **Ashoka Pillar Banknotes:**

The first banknote issued by independent India was the one rupee note issued in 1949. While retaining the same designs the new banknotes were issued with the symbol of Lion Capital of Ashoka Pillar at Sarnath in the watermark window in place of the portrait of King George.

The name of the issuer, the denomination and the guarantee clause were printed in Hindi on the new banknotes from the year 1951. The banknotes in the denomination of Rs.1000, Rs.5000 and Rs.10000 were issued in the year 1954. Banknotes in Ashoka Pillar watermark Series, in Rs.10 denomination were issued between 1967 and 1992, Rs.20 denomination in 1972 and 1975, Rs.50 in 1975 and 1981, and Rs.100 between 1967-1979. These banknotes are still found in circulation. The banknotes issued during the above period, contained the symbols representing science and technology, progress, orientation to Indian Art forms. In the year 1980, the legend "Satyameva Jayate", i.e., truth alone shall prevail was incorporated under the national emblem for the first time.

To contain the volume of banknotes in circulation, Rs.500, banknote was introduced in October 1987 with the portrait of Mahatma Gandhi and the Ashoka Pillar watermark.

ii. **Mahtma Gandhi (MG) Series 1996**

The banknotes in MG Series – 1996 are available in the denomination of Rs.5, (introduced in November 2001) Rs.10 (13-06-1996), Rs.20 (24-08-2001), Rs.50 (14-03-1997), Rs.100 (04-06-1996), Rs.500 (20-10.1997) and Rs.1000 (November 2000). All the banknotes of this series bear the portrait of Mahatma Gandhi on the obverse (front) side, in place of symbol of Lion Capital of Ashoka Pillar, which has also been retained and shifted on the same side. This means that these banknotes contain Mahatma Gandhi watermark as well as Mahatma Gandhi's portrait.

Are there any special features in the banknotes of Mahatma Gandhi series- 1996?

The Mahatma Gandhi series-1996 banknotes contained several special features vis-à-vis the banknotes issued earlier. These are

i. **Security thread:** Rs.10, Rs.20 and Rs.50 notes contain fully embedded security thread. Rs.100, Rs.500 and Rs.1000 banknotes contain windowed security thread. This thread is partially exposed and partially embedded. When held against light, this thread can be seen as one continuous line. Other than on Rs.1000 banknotes, this thread contains the words 'Bharat' in the Devanagari script and 'RBI' appearing alternately. The security thread of the Rs.1000 banknote contains the inscription 'Bharat' in the Devanagari script, '1000' and 'RBI'.

ii. **Latent Image:** The vertical band next to the (right side) Mahatma Gandhi's portrait, contains a latent image, showing the denominational value 20, 50, 100, 500 or 1000 as the case may be. The value can be seen only when the banknote is held horizontally and light allowed to fall on it at 45° ; otherwise this feature appears only as a vertical band.

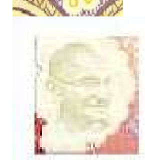
iii. **Micro letterings:** This feature appears between the vertical band and Mahatma Gandhi portrait. It contains the word 'RBI' in Rs.10. Notes of Rs.20 and above also contain the denominational value of the banknotes. This feature can be seen better under a magnifying glass.

iv. **Identification mark:** A special intaglio feature (raised printing) has been introduced on the left of the watermark window, on the obverse (front) on all banknotes except Rs.10/- banknote. This feature is in different shapes for various denominations (Rs.20-Vertical Rectangle, Rs.50-Square, Rs.100-Triangle, Rs.500-Circle, Rs.1000-Diamond) and helps the visually impaired to identify the denomination

Rs.20 Rs.50 Rs.100 Rs.500 Rs.1000

v. **Intaglio Printing:** The portrait of Mahatma Gandhi, Reserve Bank seal, Guarantee and promise clause, Ashoka Pillar Emblem and RBI Governor's signature are printed in intaglio i.e. in raised prints in Rs.20, Rs.50, Rs.100, Rs.500 and Rs.1000 banknotes.

vi. **Fluorescence:** The number panels of the banknotes are printed in fluorescent ink. The banknotes also have optical fibres. Both can be seen when the banknotes are exposed to ultra-violet lamp.



vii. **Optically Variable Ink:** The numeral 500 & 1000 on the Rs.500 [revised colour scheme of mild yellow, mauve and brown] and Rs.1000 banknotes are printed in Optically Variable Ink viz., a colour-shifting ink. The colour of these numerals appears green when the banknotes are held flat but would change to blue when the banknotes are held at an angle.

viii. **Watermark:** The banknotes contain the Mahatma Gandhi watermark with a light and shade effect and

iii) MG series – 2005 banknotes

MG series 2005 banknotes are issued in the denomination of Rs.10, Rs.20, Rs.50, Rs.100, Rs.500 and Rs.1000 contain some additional / new security features. The Rs.50 and Rs.100 banknotes were issued in August 2005, followed by Rs.500 and Rs.1000 denominations in October 2005 and Rs.10 and Rs.20 in April 2006 and August 2006, respectively.

The additional / new security features in MG Series 2005 banknotes.

i. **Security Thread:** The machine-readable security thread in Rs.10, Rs.20 and Rs.50 denomination banknotes is windowed on front side and fully embedded on reverse side. The thread fluoresces in yellow on both sides under ultraviolet light. The thread appears as a continuous line from behind when held up against light.

ii. Rs.100, Rs.500 and Rs.1000 denomination banknotes have machine-readable windowed security thread with colour shift from green to blue when viewed from different angles. It fluoresces in yellow on the reverse and the text will fluoresce on the obverse under ultraviolet light.

iii. **Intaglio Printing:** The portrait of Mahatma Gandhi, Reserve Bank seal, Guarantee and promise clause, Ashoka Pillar emblem, Governor's signature and the identification mark for the visually impaired persons are printed in improved intaglio.

iv. **See through register:** Half the numeral of each denomination (10, 20, 50, 100, 500 and 1000) is printed on the obverse (front) and half on the reverse. The accurate back to back registration makes the numeral appear as one when viewed against light.

v. **Water Mark and electrotype watermark:** The portrait of Mahatma Gandhi, the multi-directional lines and an electrotype mark showing the denominational numeral 10, 20, 50, 100, 500 and 1000 appear in this section respectively in each denomination banknote and these can be viewed better when the banknote is held against light.

vi. **Optically Variable Ink (OVI):** The font size of the numeral 500 and 1000 in Rs.500 and Rs.1000 denomination banknotes is reduced, as compared to MG series banknotes issued in these denominations earlier in the year 2000. The colour of the numeral appears green when the banknote is held flat but would change to blue when the banknote is held at an angle.

vii. Dual coloured optical fibres, seen under UV lamp.

viii. **Year of Printing:** Year of printing appears on the reverse of the banknote

All these banknotes issued by the Bank are legal tender.

The details are also available in the updated version of the Master Circular on Detection and Impounding of Counterfeit Banknotes- (2007). (Annex IV)

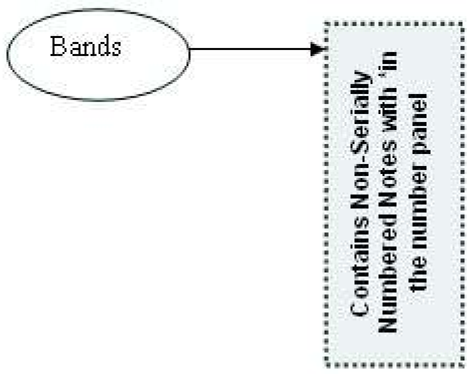
Why was the change brought about?

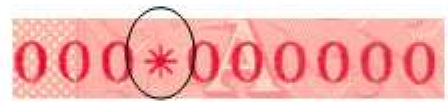
Central banks, the world over change the design of their banknotes and introduce new security features primarily to make counterfeiting difficult and to stay ahead of counterfeiters. India also follows the same policy.

What is a "star series" banknote?

Fresh banknotes issued by Reserve Bank of India till August 2006 were serially numbered. Each banknote bears a distinctive serial number along with a prefix. The prefix consists of numeral and letter/s. The banknotes are issued in packets containing 100 pieces.

The Bank has adopted the "STAR series" numbering system for replacement of defectively printed banknotes, at the printing presses. To begin with, this will be for banknotes of Rs.10, Rs.20 and Rs.50 denomination. The Star series banknotes are exactly like the existing Mahatma Gandhi Series banknotes, but have an additional character viz., a *(star) in the number panel in the space between the prefix and the number. The packets containing these banknotes will not, therefore, have sequential serial numbers, but contain 100 banknotes, as usual. To facilitate easy identification, the bands on such packets clearly indicate the presence of these banknotes in the packet.





F) Counterfeits / Forgeries

How does one differentiate between a genuine banknote and forged / counterfeit banknote?

The banknote on which the above explained features i.e., the features of genuine banknotes are not available / absent can be suspected to be a counterfeit banknotes and examined minutely.

What are the legal provisions relating to printing and circulation of forged banknotes?

Counterfeiting banknotes / using as genuine, forged or counterfeit banknotes / possession of forged or counterfeit banknote / making or possessing instruments or materials for forging or counterfeiting banknotes making or using documents resembling banknotes are offences under Sections 489A to 489E of the Indian Penal Code and are**punishable in the Courts of Law by fine or imprisonment ranging from seven years to life imprisonment or both, depending on the offence.**

G) 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:

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