CHAPTER 40

EXCHANGE, COINAGE AND CURRENCY

Coinage and Currency

Under The Coinage Act 1906, the Government of India is charged with the responsibility of the production and supply of coins to the Reserve bank Of India(RBI). The RBI places an annual indent for this purpose and the Government of India draws up the production programme for the India Government Mints on the basis of the indent. The Mints are situated at Mumbai, Hyderabad, Kolkata and Noida have rich minting heritage and legacy of producing quality products. These mints are carrying out minting of all coins circulated in the country. India Government Mints (IGM) offer comprehensive range of services covering every stage of the minting process - from planning to the finished products. Utilization of advanced technology, innovation, quality and reliable delivery methods are some of the components of strength of these mints. IGMs have made a niche in the minting world - with excellence in design, expertise in minting precious metals, and above all, a long tradition of craftsmanship. Reliability is combined in a natural manner in design and production of individualistic solution that truly.

Coins in India are presently being issued in denominations of 10 paise, 20 paise, 25 paise, 50 paise, one rupee, two rupee, and five rupee. 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 ` 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. There are 4422 currency chest branches and 3784 small currency depots spread throughout the country. The currency chests and small coins depots distribute coins to the public, customers and other bank branches in their area of operation. The members of the public can approach the RBI offices of the above agencies for requirement of coins.

Currency: Currency Note Press, Nashik Road and bank Note Press, Dewas which are engaged in production of bank Notes for our country as well as for foreign countries using state of the art technology. More than 40% of the currency Notes circulated in India is printed by these units. Both the Currency Note printing Presses are ISO 9001:2000 & ISO 14001:2004 certified units having fool-proof accounting of security items, stringent security systems with ultra-modern eco-friendly efficient treatment facilities and complemented by a service department to ensure maximum in-transit security.

Foreign Exchange Reserves

The deregulation of financial markets has accelerated the pace of financial innovations and brought forth the need for regular and timely flow of qualitative financial statistics for pursuing sound macro-economic policies as well as promoting financial stability. In the context of the recent financial crises, the traditional issues in Financial Statistics such as timeliness in dissemination, accuracy, transparency, harmonisation, international comparability, etc. have come into sharper focus.

Foreign Exchange Reserves: The RBI has the primary responsibility of collection, compilation and dissemination The RBI has the primary responsibility of collection, compilation and dissemination of data relating to foreign exchange reserves. The data are based on actual balances as per RBI records. The foreign currency assets, consisting of various currency holdings are converted into US dollar using the New York closing exchange rates. Gold is valued close to the international market prices. Conversion of SDRs into US dollar is done at the rates released by IMF.

Exchange Rate

The exchange rate is a key financial variable that affects decisions made by foreign exchange investors, exporters, importers, bankers, businesses, financial institutions, policymakers and tourists in the developed as well as developing world. Exchange rate fluctuations affect the value of international investment portfolios, competitiveness of exports and imports, value of international reserves, currency value of debt payments, and the cost to tourists in terms of the value of their currency. Movements in exchange rates thus have important implications for the economy’s business cycle, trade and capital flows and are therefore crucial for understanding financial developments and changes in economic policy.

India has been operating on a managed floating exchange rate regime from March 1993, marking the start of an era of a market determined exchange rate regime of the rupee with provision for timely intervention by the central bank. As has been the experience with the exchange rate regimes the world over, the Reserve Bank as the central bank of the country has been actively participating in the market dynamics with a view to signaling its stance and maintaining orderly conditions in the foreign exchange mark. As a result of calibrated and gradual capital account openness, the financial markets, particularly forex market, in India have also become increasingly integrated with the global network since 2003-04. This is reflected in the extent and magnitude of capital that has flown to India in recent years.

Decisions taken by Government of India, on account of Indian Exchange Rate are as follows.

Year	The Foreign Exchange Market and Exchange Rate
1947-1971	Par Value system of exchange rate. Rupee’s external par value was fixed in terms of gold with the pound sterling as the intervention currency.

1971	Breakdown of the Bretton-Woods system and floatation of major currencies. Rupee was linked to the pound sterling in December

	1971.
1975	To ensure stability of the Rupee, and avoid the weaknesses associated with a single currency peg, the Rupee was pegged to a basket of currencies. Currency selection and weight assignment was left to the discretion of the RBI and not publicly announced.
1978	RBI allowed the domestic banks to undertake intra-day trading in foreign exchange.
1978-1992	Banks began to start quoting two-way prices against the Rupee as well as in other currencies. As trading volumes increased, the 'Guidelines for Internal Control over Foreign Exchange Business' were framed in 1981. The foreign exchange market was still highly regulated with several restrictions on external transactions, entry barriers and transactions costs. Foreign exchange transactions were controlled through the Foreign Exchange Regulations Act (FERA). These restrictions resulted in an extremely efficient unofficial parallel (hawala) market for foreign exchange.
1990-1991	Balance of Payments crisis
July 1991	To stabilize the foreign exchange market, a two step downward exchange rate adjustment was done (9% and 11%). This was a decisive end to the pegged exchange rate regime.
March 1992	To ease the transition to a market determined exchange rate system, the Liberalized Exchange Rate Management System (LERMS) was put in place, which used a dual exchange rate system. This was mostly a transitional system.
March 1993	The dual rates converged, and the market determined exchange rate regime was introduced. All foreign exchange receipts could now be converted at market determined exchange rates.

Nominal Effective Exchange Rate (NEER) and Real Effective Exchange Rate (REER)

The indices of Nominal Effective Exchange Rate (NEER) and Real Effective Exchange Rate (REER) are used as indicators of external competitiveness. NEER is the weighted average of bilateral nominal exchange rates of the home currency in terms of foreign currencies. Conceptually, the REER, defined as a weighted average of nominal exchange rates adjusted for relative price differential between the domestic and foreign countries, relates to the purchasing power parity (PPP) hypothesis.

The Reserve Bank of India (RBI) has been constructing five-country and thirty six-country indices of NEER and REER as part of its communication policy and to aid researchers and analysts. Theses indices are published in the Bank's monthly Bulletin. Three major developments as set out in the following paragraphs have necessitated a review of the existing indices.

First, introduction of the Euro (notes and coins) with effect from January 1, 2002 necessitated the need to replace the existing national currencies of the Euro zone by the common currency for the members, which formed part of RBI's 5-country and 36-

country REER/NEER indices. The European Commission (Eurostat) introduced a harmonised index of consumer prices (HICP) for the member countries, which entailed individual consumer price indices to be replaced by HICP in the construction of the REER. Second, there has been a significant shift in India's trade relations across countries/regions, mainly towards developing and emerging economies during the last decade, requiring a change in the currency basket and the weights assigned to India's trading partners included in the REER. Third, the base year of the Wholesale Price Index of India (WPI), was changed to 1993-94, necessitating a change in the base year for 36-country REER and NEER indices.

Against the above backdrop, the Reserve Bank has now decided to replace its existing 5-country indices with new six-currency indices of NEER/REER. The thirty six-country indices have also been revised and replaced with new 36-currency indices of NEER/REER.

Highlights:

- In 2011-12,the total foreign exchange reserves in Indian Currency increased to Rs.15061 billion, from Rs.13610 billion in 2010-11,signifying an increase of 10.7 %.However, a fall of (1.9%) is observed in the total foreign exchange reserves for the year 2009-10 over 2008-09. The fall was because of decrease by (7.9%) in Foreign Currency Assets,which contribute to more than 80% in foreign exchange reserves.
- During 2010-11 Reserve Tranche Position (RTP) increased from Rs.62 billion to Rs.132 billion In 2009-10 and then 145 billion in 2011-12.
- The exchange rate of Rupee in Pound Sterling have come down from 78.316 in 2008-09 to 75.886 in 2009-10 and then in 2011-12 it increased to 76.391.
- In 2011-12,the rupee has depreciated in comparison to all other currencies, like US Doller,, Pound Sterling,,Yen,,Canadian Dollar, ,Brazilian Real and Special Drawing Rights (SDR).

- While Nominal Effective Exchange Rate (NEER) of 6 currency indexed increased to 91.83 in 2010-11 from 87.07 in 2009-10, in 2011-12 it came down to level of 64.86 below than level of even 20054-5.The NEER for 36 currency index also shows the similar trend. The Real Effective Exchange Rate (REER) of 6 currency index increased to 114.91 in 2010-11from 101.97 in 2009-10 and again came down to 111.86. Whereas, the REER for 36 currency index is following the same trend.

- In Kolkata Mint, first time during 2010-11, Coins in Nickel -brass have been minted. the number and value of these coins are 360 million coins with a value of Rs.1800 million. As a result the number of coins minted in India Government Mint, Kolkata increased from 1444 million in 2009-10 to 1584 million in 2010-11, whereas, their value increased from Rs.3046.88 million in 2009-10 to Rs. 3595.3 million in 2010-11.

- Similarly, the number of coins minted in India Government Mint, Mumbai increased because of increase in minting of Nickel-brass Coins from 321.8 million in 2009-10 to 414.1 million in 2010-11.

- The total money supply increased from Rs.14893.01 billion in 2009-10 to Rs.16355.69 billion in 2010-11by 10% and in 2011-12,,it increased by 5.9%. The increase is about 9.8%. Currency with public increased from Rs.9118 billion to Rs.10265 billion during the same period.