CHAPTER 40
EXCHANGE, COINAGE AND CURRENCY

40.1 Coinage and Currency : 40.1.1 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.

40.1.2 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.

40.1.3 **Currency**: Currency Note Press, Nasik 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.

40.2 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. The **Reserve Bank of India , 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. 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**).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. The level of foreign exchange reserves is largely the outcome of the Reserve Bank of India (RBI) intervention in the foreign exchange market to smoothen exchange rate volatility and valuation changes due to movement of the US dollar against other major currencies of the world. 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.

40.3 Exchange Rate : 40.3.1 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.

40.3.2 India has been operating on a managed floating exchange rate regime from March1993, 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.

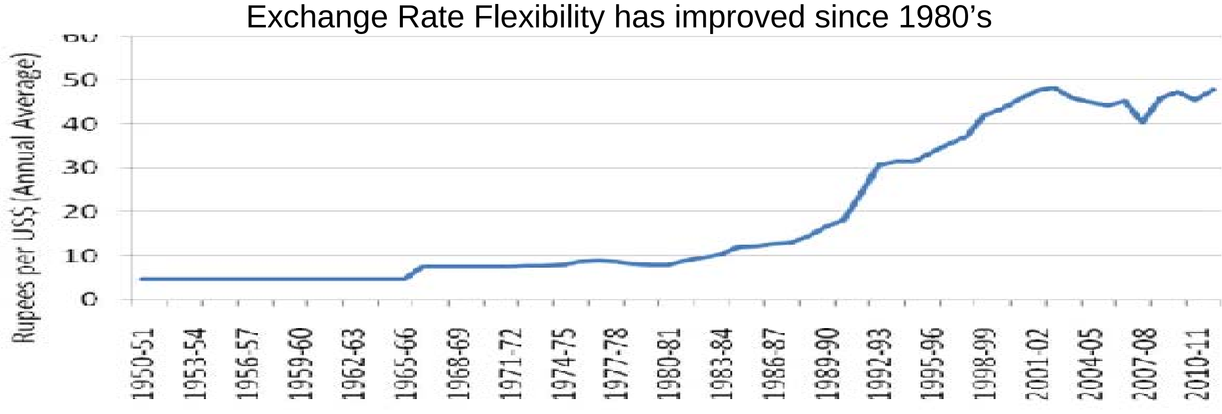
40.3.3 Decisions taken by Government of India, on account of Indian Exchange Rate are as Follows:

1947-1971 The Foreign Exchange Market and Exchange Rate 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.

Exchange Rate Flexibility has improved since 1980’s



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

40.4.1 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.

40.4.2 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.

40.4.3 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.

40.4.4 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.

40.5 Recent Developments : 40.5.1 Foreign Exchange Reserves : Beginning from a low level of US$ 5.8 billion at end-March 1991, India's foreign exchange reserves increased gradually to US$ 25.2 billion by end-March 1995, US$ 38.0 billion by end-March 2000, US$ 113.0 billion by end-March 2004 and US$ 199.2 billion by end-March 2007. The reserves stood at US$ 314.6 billion at end-May 2008 before declining to US$ 252.0 billion at the end of March 2009. The decline in reserves in 2008-09 was inter alia a fallout of the global crisis and strengthening of the US dollar vis-à-vis other international currencies. Foreign exchange reserves increased to US$ 279.1 billion at end-March 2010, mainly on account of valuation gain as the US dollar depreciated against most of the major international currencies. In fiscal 2010-11, the reserves again showed an increasing trend, reaching US$ 304.8 billion at end-March 2011. In fiscal 2011-12, they reached all-time high of US$ 322.0 billion at end-August 2011. However, they declined thereafter and stood at US$ 294.4 billion at end-March 2012.

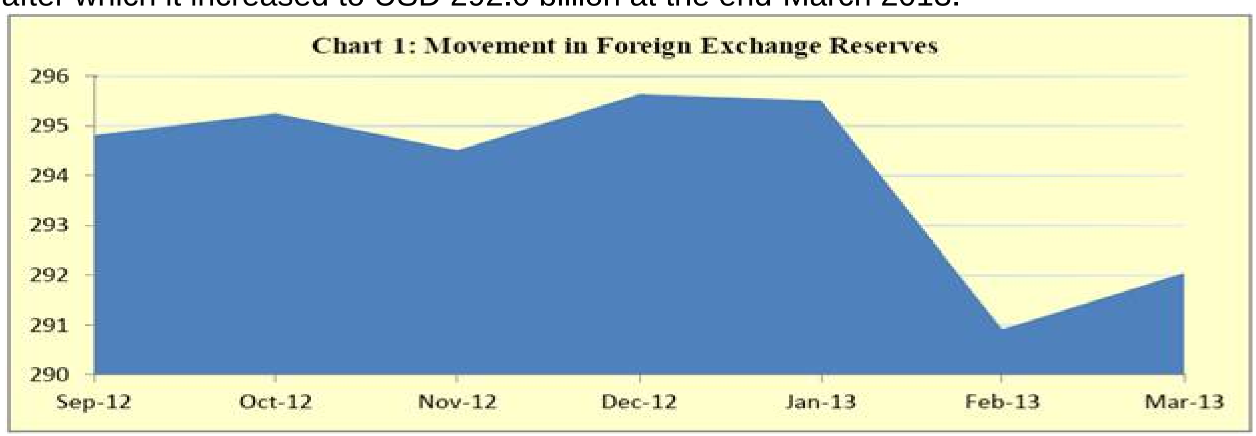
Table 6.3 : Summary of Changes in Foreign Exchange Reserves (US$ billion)

Sl. No.	Year	Foreign exchange reserves at the end of financial year (end March)	Total Increase(+)/ decrease (-) in reserves	Increase/decrease in reserves on a BoP basis	Increase/decrease in reserves due to valuation effect
1	2	3	4	5	6
1	2007-08	309.7	110.5	92.2 (83.4)	18.3 (16.6)
2	2008-09	252.0	- 57.7	-20.1 (34.8)	- 37.6 (65.2)
3	2009-10	279.1	27.1	13.4 (49.4)	13.7 (50.6)
4	2010-11	304.8	25.7	13.1 (51.0)	12.6 (49.0)
5	2011-12	294.4	- 10.4	- 12.8 (123.0)	2.4 (-23.0)
6	2012-13 (up to Sept. 2012)	294.8	0.4	0.3 (75.0)	0.1 (25.0)

Source : RBI.
Note : Figures in parentheses indicate percentage shares of total change.

40.5.2 In 2012-13, the reserves increased marginally by US$ 0.4 billion from US$ 294.4 billion at end-March 2012 to US$ 294.8 billion at end- September 2012. Of this total increase, US$ 0.3 billion was on BoP basis and US$ 0.1 billion was on account of valuation effect. A summary of changes in the foreign exchange reserves since 2007-08, with a breakdown into increase / decrease on BoP basis and valuation effect is presented in the table above.

40.5.3 The reserves stood at USD 294.8 billion as at end-September 2012. During the half year under review, it came down to USD 290.9 billion at the end of February 2013 after which it increased to USD 292.0 billion at the end-March 2013.



40.5.4 External Liabilities vis-à-vis Foreign Exchange Reserves

40.5.4.1 India's International Investment Position (IIP), which is a summary record of the stock of country's external financial assets and liabilities, as at end-March 2013 is as under

Table 2: International Investment Position of India		
		(USD Billion)
Item		Mar-13
A. Total External Assets		447.8
1.	Direct Investment	119.5
2.	Portfolio Investment	1.4
3.	Other Investment	34.8
4.	Foreign Exchange Reserves	292.1
B. Total External Liabilities		755.1
1.	Direct Investment	233.7
2.	Portfolio Investment	183.0
3.	Other Investment	338.5
	Net IIP (A-B)@	-307.3
@ Difference, if any, is due to rounding off.		

40.5.4.2 The net IIP as at end-March 2013 was negative at USD 307.3 billion, implying that our external liabilities are more than the external assets. The net IIP as at end-March 2012 and end-September 2012 was USD (-) 249.5 billion and USD (-) 270.3 billion respectively.

40.5.5 Adequacy of Reserves : Adequacy of reserves has emerged as an important parameter in gauging the ability to absorb external shocks. One popular measure of reserve adequacy requires that the usable foreign exchange reserves should exceed scheduled amortisation of foreign currency debts (assuming no rollovers) during the following year. The ratio of short-term debt to the foreign exchange reserves, which was 28.7 per cent at end-September 2012, increased to 33.1 per cent at end-March 2013. The ratio of volatile capital flows (defined to include cumulative portfolio inflows and short-term debt) to the reserves increased from 83.9 per cent as at end- September 2012 to 96.1 per cent as at end-March 2013. At end-March 2013, the import cover has declined marginally to 7.0 months from 7.2 months at end-September 2012.

40.5.6 Exchange Rate : 40.5.6.1 Compared to 2011-12 , major currencies gained during 2012-13 vis a vis Rupee.The average Exchange rate of Rupee depreciated by about 6.3 % from Rs 51.16 per US Dollar on March 2012 to Rs 54.39 per US Dollar on March 2013.Movement of Rupee vs some major currencies is tabulated below:

EXCHANGE RATE OF THE INDIAN RUPEE
(Financial Year – Annual Average and End-year Rates)

Year	SDR		US Dollar		Pound Sterling		Deutsche Mark/Euro		Japanese Yen	
	Average	End-year	Average	End-year	Average	End-year	Average	End-year	Average	End-year
1970-71	7.50	7.50	7.56	7.50	18.00	18.13	2.05	2.07	2.08	2.10
1975-76	10.36	10.38	8.68	8.97	18.39	17.19	3.45	3.54	3.00	3.00
1980-81	10.18	10.06	7.91	8.19	18.50	18.38	4.19	3.90	3.75	3.90
1985-86	12.92	13.99	12.23	12.31	16.85	18.25	4.56	5.30	5.62	6.80
1990-91	24.84	26.41	17.94	19.64	33.19	34.05	11.44	11.43	12.79	13.90
1995-96	50.48	50.16	33.45	34.35	52.35	52.43	23.40	23.30	34.84	32.30
2000-01	59.55	58.80	45.68	46.64	67.55	66.58	41.48	41.01	41.41	37.43
2005-06	64.49	64.26	44.27	44.61	79.05	77.80	53.91	54.19	39.14	38.02
2010-11	69.72	70.79	45.58	44.65	70.89	71.92	60.22	63.24	53.30	54.02
2011-12	75.31	79.25	47.92	51.16	76.39	81.80	65.89	68.36	60.75	62.43
2012-13	83.03	81.48	54.41	54.39	85.97	82.32	70.07	69.54	65.85	57.76

40.5.6.2 Earlier, On an annual average basis, rupee depreciated against major international currencies in fiscal 2011-12 also . The sharp fall in value of rupee was due to the supply-demand imbalance in the domestic foreign exchange market on account of slowdown in FII inflows, strengthening of US dollar in the international market due to the safe haven status of US Treasuries and heightened risk aversion and deleveraging due to the euro area crisis that impacted financial markets across emerging market economies. Apart from the global factors, there were several domestic factors that have added to the weakening trend of the rupee, which include increasing current account deficit, high inflation. The Government of India and the RBI have taken a number of steps to boost exports and facilitate capital inflows so as to reduce external vulnerability.

40.5.7 NEER & REER : The Nominal Effective Exchange Rate (Trade Based) depreciated by about 10.4 % between March 2012 and March 2013 whereas the Real Effective Exchange Rate (Trade Based) depreciated by 6.7 % during the same period. Table indicating movement in NEER & REER is as under :

INDICES OF REAL EFFECTIVE EXCHANGE RATE (REER) AND NOMINAL EFFECTIVE EXCHANGE RATE (NEER) OF INDIAN RUPEE (36- Currency Bilateral Weights) (Financial Year - Annual Average)

(Base:1993-94 = 100)

Year	Export Based Weights		Trade Based Weights	
	REER	NEER	REER	NEER
1993-94	100.14	99.97	100.13	99.97
1994-95	105.10	98.48	104.59	99.21
1995-96	100.31	91.04	98.42	91.65
1996-97	98.76	88.86	96.64	89.08
1997-98	103.26	92.11	100.95	92.17
1998-99	94.23	90.12	92.84	88.76
1999-00	95.06	90.31	95.75	90.90
2000-01	98.64	90.13	100.04	92.11
2001-02	98.68	89.11	100.87	91.52
2002-03	95.94	87.04	98.19	89.22
2003-04	98.98	87.86	99.50	87.15
2004-05	98.24	88.34	100.05	87.28

(Base:2004-05 = 100)

Year	Export Based Weights		Trade Based Weights	
	REER	NEER	REER	NEER
2004-05	100.03	100.00	100.01	100.00
2005-06	102.72	102.21	103.09	102.24
2006-07	100.93	98.00	101.22	97.63
2007-08	108.57	105.61	108.54	104.75
2008-09	98.16	94.00	98.08	93.34
2009-10	96.67	91.42	95.67	90.94
2010-11	106.08	94.74	103.93	93.54
2011-12	104.06	89.13	101.38	87.38
2012-13	97.42	80.05	94.61	78.32

Note : 1. Data for 2011-12 and 2012-13 are provisional.
2. REER indices are recalculated from 1993-94 onwards using the new Wholesale Price Index (WPI) series (Base : 1993-94 = 100).

References:

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