

2 Currency Management

State Bank of Pakistan (SBP), being the Central Bank of the country, is responsible for issuance of bank notes. The responsibilities for circulating the bank notes and the coins have been entrusted to the SBP-BSC. Within SBP-BSC, the Currency Management Department (CMD) is responsible to manage the supply chain for bank notes and coins with the active participation of the 16 Field Offices of the BSC. At the same time, CMD is keeping abreast of latest developments in the field of currency and making efforts to introduce these developments in the existing set up to meet the increasing demand of bank notes. CMD has also been trying to be in line with the international best practices in currency management.

2.1 Overview

Currency Management Department (CMD) primarily deals with matters relating to circulation of bank notes & coins - including National Prize Bonds - across Pakistan, retrieval of unfit bank notes from circulation and destruction of the same through a systematic and secure process. The Department strives to ensure circulation of clean notes in the market and to maintain trust of the public in the currency through (a) ensuring smooth and equitable distribution of bank notes across the country through NBP chests/sub-chests as well as some commercial banks; (b) ensuring circulation of clean notes in the market as part of implementation of SBP's Clean Note Policy; and (c) reviewing/rationalizing the working procedures and upgrading the same keeping in view the innovative international practices across the world.

Besides ensuring uninterrupted supply of good quality currency notes to stakeholders, CMD, in close coordination of the concerned department of the State Bank of Pakistan, also makes efforts to combat note counterfeiting in collaboration with Law Enforcement Agencies. The Department is in the process of upgrading its capacity to check counterfeiting through use of better equipments and establishing of a forensic lab. In addition, it also works in collaboration with the Finance Department of SBP for identifying measures to improve security features in the currency notes.

The Department also arranges public awareness programs round the year with the help of different Field Offices of SBP-BSC for stakeholders from commercial banks, educational institution, general public and key Government institutions involved in currency handling. These programs focus on dissemination of the "security features of bank notes in circulation" and also "awareness regarding SBP's Clean Note Policy". The key purpose of such programs is to help the external stakeholders in combating circulation of counterfeit notes and also ensuring circulation of clean notes in the market.

The Department also provides its feedback to the concerned Department(s) of the State Bank in formulation of policies related to (a) printing of bank notes; and (b) forecasting the demand for fresh notes and coins, based on past consumption trends and expected growth of the economy.

2.2 Circulation of Banknotes

In Pakistan, despite increasing use of plastic money and number of bank accounts, the general public still prefers to make payments in cash, which is one of the main reasons for increase in Currency in Circulation (CIC) in the economy. During the past few years, CIC has increased manifold as is evident from **Table 2.1**.

The annual growth in CIC in FY14 was at 13 percent, which was lower than the growth of 15 percent recorded during FY13. However the CIC, as a percentage of GDP, witnessed a marginal increase of 9.0 percent as compared with 8.9 percent in the previous year.

Years	Nominal GDP (MP) (Billion Rs.)	CIC (Billion Rs.)	CIC as % of GDP	Percentage (%) Change in CIC over Previous Year	Percentage change in CIC since base year (2009)
FY09	13,199.71	1,223.72	9.3	17	0
FY10	14,867.00	1,377.40	9.3	13	13
FY11	18,284.87	1,600.00	8.8	16	31
FY12	20,090.86	1,777.12	8.8	11	45
FY13	22,909.08	2,042.55	8.9	15	67
FY14	25,401.90	2,309.24	9.0	13	89

The data shows that the CIC recorded a substantial growth from Rs. 1,223 billion during FY09 to Rs. 2, 309 billion in FY14, during the last five years showing a considerable increase of 89 percent.

2.3 Issuance of Fresh Notes

To ensure adequate and uninterrupted availability of good quality bank notes in circulation, CMD supplies fresh notes in the market round the year, through the Field Offices of SBP-BSC (**Table 2.2**).

Year	Denomination (Rs.)							Value (in millions)
	10	20	50	100	500	1000	5000	
FY14	990	251	206	280	182	259	17	489,997
FY13	608	206	172	600	214	303	-	519800
FY12	755	194	125	244	183	310	-	443601

2.3.1 Distribution of Fresh Notes to Public through Commercial Banks on the Occasion of Eid-ul-Fitr

SBP-BSC makes special arrangements every year for the distribution of fresh notes on the occasion of Eid-ul-Fitr to meet the unusual demand, especially for small-denomination notes. Accordingly fresh notes, amounting to Rs. 138 billion were issued on the occasion of Eid-ul-Fitr in FY14 as against Rs. 114.2 billion issued during the corresponding period last year, a 20.8 percent increase in terms of value and 69.8 percent increase in terms of number of pieces (**Table 2.3**).

Table 2.3 Distribution of Fresh Notes to Public on the Occasion of Eid-ul-Fitr										
Pieces in million, Value in billion Rs. (Figures rounded off to nearest decimal)										
		Denomination							Total Pieces	Total Value
		Rs.10/-	Rs.20/-	Rs.50/-	Rs.100/-	Rs.500	RS.1000/-	Rs.5000/-		
Ramadan 2014	Total	642	152	129	152	44	74	2	1,194	138
Ramadan 2013	Counters	62	19	8	7	3	6	0	27	13.4
	Govt. Payment	7	2	2	3	1	3	3	18	4.0
	Banks	281	76	47	66	50	59	1	580	100.6
	Total	350	97	57	76	54	68	1	703	114.2

2.4 Mechanization of Currency Management Operations

Currency Management is a complex process and involves activities related to printing, distribution, lifting of unfit notes from the markets and their destruction. Keeping in view the predominantly cash-based nature of the economy of Pakistan and consequent excessive demand pressure for fresh notes, the Bank has extensively invested in the procurement of new and up-graded Cash Handling equipments having counting, bundling, packeting, sorting and destruction features. However, these efforts are still short of international best practices. Therefore CMD is currently in the process of planning for the procurement of high-speed bank note processing solutions to gradually replace manual processing of the bank notes. These machines, when put into operation, will help CMD in adopting the new technology besides implementing the said technology, which would greatly enhance the internal controls in the area of sorting, counterfeit detection, online shredding, packeting, bundling, etc. with little or no human involvement.

2.5 Highlights of Currency Management during FY14

2.5.1 Revision in Existing Instructions

- Issuance of Master Circular in the area of Prize Bonds, to facilitate implementation of the scheme; and
- Updation of Issue Department Manual to facilitate cash management by the Field Offices.

CMD is working in collaboration with Information Systems & Technology Department (ISTD) of SBP and Information & Technology Department (IT) of National Bank of Pakistan (NBP) on the development of an online interface, i.e. Data Acquisition Portal (DAP-4) for currency chests to submit online chest reports. The pilot design of the Data Acquisition Portal has been completed, and the same is being tested at one Issue Office. Once finalized for all four Issue Offices, it will make monitoring of chest operations of the NBP more prompt and efficient.

2.6 National Prize Bonds

This is a bearer type security available in the denominations of Rs. 100, Rs. 200, Rs. 750, Rs. 1,500, Rs. 7,500, Rs. 15,000, Rs. 25,000 and Rs. 40,000. At present, the sale of National Prize Bonds (all eight denominations) is carried out through 16 Field Offices of

SBP-BSC (Bank), authorized branches of scheduled banks and National Savings Centers of Central Directorate of National Savings (CDNS). Prize draws are held on quarterly basis at nine SBP-BSC Field Offices, as per schedule announced by CDNS every year.

The total number of first prizes paid on various denominations of prize bonds increased from 711 in FY13 to 788 during FY14, showing a rise of 11 percent. Similarly, the total number of second and third prizes paid on various denominations increased by 13 and 19 percent, respectively, in the same period.

The Field Offices of SBP-BSC settled 1,743,240 cases of prize money payment during FY14 as compared with 1,558,778 cases during FY13, showing an increase of 11.8 percent.

The aggregate value of sale of National Prize Bonds of all denominations stood at Rs. 155.0 billion during FY14, as compared with Rs. 162.2 billion in FY13, depicting a decline of 4.4 percent (**Table 2.4**). The total encashment of prize bonds amounted to Rs. 98.8 billion during FY14 as compared with Rs. 105.9 billion in the previous year, indicating a decline of 6.6 percent. This decline in encashment indicates that people are investing more in purchase of bonds and considering it as a secure saving instrument.

An increase of 16.9 percent has been observed in the value of prize bonds issued by SBP-BSC that increased from Rs. 332.5 billion in FY13 to Rs. 388.7 billion during FY14. This rise indicates the increasing popularity of prize bonds among the general public and their trust in its management by BSC (**Table 2.4**).

SBP-BSC Field Offices paid prizes amounting to Rs. 32.8 billion during FY14, as compared with payment of prize money equaling Rs. 27.5 billion in FY13, which was 19 percent higher than the prize money amount paid during the previous year. **Table 2.4** below gives denomination-wise details of prize bonds' sale, encashment, and prize money paid during FY13 and FY14.

Table 2.4: Total Sale & Encashment of National Prize Bonds at Field Offices of BSC									
(Rupees in millions)									
Sr	Denom	FY 13				FY 14			
		Sale	Encashment	Prize Money Payment	Value of Prize Bonds issued by SBP BSC held by public	Sale	Encashment	Prize Money Payment	Value of Prize Bonds issued by SBP BSC held by public
1	100	4,701.44	348.27	105.96	4,353.17	2267.14	604.84	381.09	1662.30
2	200	6,082.62	4,684.17	1,709.12	20,195.08	5380.91	4411.10	1708.35	970.57
3	750	14,946.45	9,210.86	4,464.02	49,942.27	14543.80	9855.79	4529.37	4688.01
4	1,500	17,527.54	10,857.85	4,983.70	56,016.72	18137.77	11627.02	5077.26	6510.74
5	7,500	18,799.64	13,464.50	4,145.24	48,125.54	17659.16	13372.37	4503.00	4286.78
6	15,000	31,128.65	22,326.09	6,252.14	70,664.93	32940.83	23994.92	6407.11	8945.91
7	25,000	26,556.78	14,095.25	2,805.50	40,312.35	25448.88	14273.75	3956.17	11175.13
8	40,000	35,258.64	23,839.36	8,339.10	99,125.56	45225.92	26416.96	9308.40	18808.96
Total		155,001.76	98,826.35	32,804.78	388,735.62	161604.39	104556.75	35870.75	57048.40

2.7 Automation/Other Achievements in respect of National Prize Bonds

- A new on-line system has been developed in Globus for confirmation of PB-18 from Public Debt Offices (PDO) for all individual prizes exceeding Rs. 18,500. Manual processing of PB-27 has been discontinued for all prizes, and the same is now done using online information available in Globus at the time of settlement of Payment Order.
- Development of a mechanism in Globus for destruction/disposal of higher-denomination National Prize Bonds (Rs.7,500, 15,000, 25,000 & 40,000) to enable the Offices to destroy bonds themselves instead of sending the same to their concerned PDOs.

2.7.1 Special Saving Certificates

Special Saving Certificates (SSC) Scheme, introduced in 1990 by CDNS, provides an avenue to the middle- and lower-income groups, households and small investors to invest their savings in a secure investment guaranteed by the Government with steady income. These certificates are available in multiple denominations of Rs. 500, Rs. 1,000, Rs. 5,000, Rs. 50,000, Rs. 100,000, Rs. 500,000 and Rs. 1,000,000, with a maturity period of three years and six profit coupon leaves, each payable after the end of six months. At present, the profit on the first five coupons is paid at the rate of 11.4 percent per annum, while it is 12.00 percent on the last coupon.

During FY14, 19,913 requests for purchase of these certificates valuing Rs. 32.7 billion were settled by the Field Offices of SBP-BSC as compared with 11,751 cases for Rs. 24.3 billion during the previous year, showing an increase of 3.46 percent.

2.7.2 Defence Saving Certificates

Defence Saving Certificates (DSC) Scheme is a long-term investment scheme, introduced in 1966 with a tenor of up to 10 years. These certificates are available in multiple denominations of Rs. 500, Rs. 1,000, Rs. 5,000, Rs. 10,000, Rs. 50,000, Rs. 100,000, Rs. 500,000 and Rs. 1,000,000.

During FY14, SBP-BSC Field Offices settled 47,766 requests for purchase of DSCs valuing to Rs. 5.3 billion as compared with 5,741 requests for around Rs. 23.4 billion during FY13, showing a three-fold increase in the pieces sold (**Table 2.5**). The main factor contributing to this significant rise in the value of sale of DSCs is that institutions have been allowed to invest individual funds (such as pension, gratuity, superannuation, contributory provident funds and trusts, etc.) in such certificates according to the instructions issued vide the Federal Government's Notification No. F.21 (I)GS-1/2011-876 dated June 27, 2012.

The combined sale of SSCs and DSCs for FY14 has increased by 36 percent as compared with FY13. In the previous fiscal year, the major chunk of the total sales of Rs. 47.6 billion pertained to SSCs whereas in FY14 both SSCs and DSCs almost equally accounted for the increase in the total sale of Rs. 38 billion.

Table 2.5. Number of DSC Cases handled by SBPBSC Field Offices									
Office	FY 12			FY 13			FY 14		
	Sale	Encashment	Profit Payment	Sale	Encashment	Profit Payment	Sale	Encashment	Profit Payment
Bahawalpur	1	16	18	3	21	21	0	6	6
Faisalabad	556	1713	1710	261	932	932	315	651	651
Hyderabad	152	406	406	181	285	285	80	473	228
Islamabad	84	296	296	91	296	290	122	173	230
Karachi	4892	6744	6744	3,361	5,942	5,705	4,061	6,391	5,888
Lahore	957	2013	2013	583	2,143	2,143	508	1,895	1,895
Multan	0	94	94	0	26	26	0	2	2
Muzaffarabad	11	9	8	18	17	17	8	20	20
NNB	633	469	469	532	1,092	1092	2366	1,585	1585
Peshawar	14	242	242	100	237	237	24	95	95
Quetta	124	451	451	109	305	305	44	418	418
Rawalpindi	382	1191	1420	356	1,025	1,303	304	697	1,177
Sialkot	35	66	66	87	230	230	72	98	98
Sukkur	57	129	125	58	135	123	36	60	60
Gujranwala	0	0	0	0	0	0	0	0	0
D.I Khan	0	0	0	1	2	2	0	1	1
Total:	7898	13839	14062	5,741	12,688	12,711	47,766	66,127	107,052