

Currency Management



2 Currency Management

Currency Management process encompasses issuance of good quality bank notes, stock management and ensuring their uninterrupted supply through four Issue Offices of SBP Banking Services Corporation supervised by the Currency Management Department (CMD). Besides facilitating the Central Directorate of National Savings (CDNS) and maintaining a close liaison with Pakistan Security Printing Corporation (PSPC), the department is also endeavoring to upgrade currency operations in Pakistan through introduction of a comprehensive, state-of-the-art automated solution commensurate with our environment and challenges.

2.1 Overview

As a part of its overall mandate, CMD is tasked with ensuring: i) smooth, timely and equitable issuance of fresh/re-issuable banknotes through Field Offices, NBP chests/sub-chests and commercial banks; ii) sale, encashment of Prize Bonds and Savings Certificates and conduct of Prize Bonds' draws as per laid down procedures; iii) implementation of SBP's Clean Note Policy through a comprehensive and fair system of onsite cash monitoring mechanism at banks' branches; and iv) alignment of our existing currency management framework with the prevailing best international practices. CMD closely coordinates with SBP's Finance Department and Central Directorate of National Savings for seeking policy directions, dealing with matters relating to currency management and executing national savings schemes on behalf of CDNS.

Box 2.1: Achievements during FY16

- Successful installation of Banknote Processing and Authentication System and allied destruction solutions;
- Successful installation of desktop note sorters at Field Offices;
- Usage of 8877 SMS tool for distribution of fresh currency notes on religious festivals.
- Updation of CMD webpage and uploading of all circulars, including information regarding security features of bank notes.
- Managed, with the help of Field Offices, verification of 223 NBP chests/sub-chests and 3,428 branches of commercial banks for their compliance to instructions on the subject.
- Conducting awareness programs through Field Offices with primary focus on security features of bank notes and SBP Clean Note Policy.

Additionally, CMD coordinates with SBP's concerned departments in facilitating the Law Enforcement Agencies (LEAs) in combating the counterfeiting of currency notes, national Prize Bonds etc. For this purpose, the department has also been focusing on procurement of sophisticated machines capable of authenticating bank notes and Prize Bonds across all SBP BSC's Field Offices. The department also plans to establish a Forensic Laboratory to enhance its internal capabilities for evaluating the type and ratio of counterfeiting. CMD works in tandem with Finance Department to introduce sophisticated security features in bank notes.

With a view to creating awareness among the general public and other stakeholders about the security features of banknotes, the department with the help of 16 Field Offices, conducts dissemination programs across Pakistan. This information is also disseminated through posters and brochures which are provided free of charge to commercial banks and other stakeholders for public awareness.

CMD provides its input to Finance Department for demand forecast pertaining to annual printing of bank notes and minting of additional coins.

The department has provided necessary input to Finance Department in developing the future vision of “Currency Management Strategy” (CMS) in Pakistan. Presently, CMD is actively pursuing implementation of CMS, along with developing different guidelines for banks in line with this strategy.

2.2 Circulation of Banknotes

Pakistan has recently seen an upsurge in internet and mobile banking transactions and usage of plastic money through various mediums. However, the economy still appears to be cash centric as is evident from the steady increase in Notes-in-Circulation (NIC). The annual growth in NIC during FY16 was 25.6 percent as against 18.1 percent recorded in FY15. The NIC as a percentage of Gross Domestic Product (GDP) stood at 11.6 percent in FY16, which is slightly higher than 10.0 percent recorded in FY15. The trend showing increase in NIC during the last few years is presented in **Table 2.1**.

Years	Nominal GDP (MP) (billion Rupees)	NIC (billion Rupees)	NIC as % of GDP	Percentage (%) Change in NIC Over Previous Year
FY10	14,867.0	1,377.4	9.3	12.6
FY11	18,276.5	1,600.0	8.8	16.2
FY12	20,046.5	1,777.1	8.9	11.1
FY13	22,379.0	2,042.6	9.1	14.9
FY14	25,068.1	2,309.2	9.2	13.1
FY15	27,383.7	2,726.5	10.0	18.1
FY16 ⁶	29,597.7 ⁷	3,424.5	11.6	25.6

2.3 Issuance of Fresh Notes

In line with the objectives of SBP’s Clean Note Policy, CMD persistently strives to improve the quality of bank notes in circulation. This is achieved through smooth and uninterrupted supply of fresh notes throughout the year, in general, and on the eve of Eid-ul-Fitr and Eid-ul-Azha, in particular. The issuance of fresh notes is mainly carried out with the help of 16 SBP BSC Field Offices and 224 NBP chests/ sub-chests across the country. The value of fresh notes issued during FY16 increased by 59% over the previous year.

2.3.1 Distribution of Fresh Notes to Public on Religious Occasions

To satisfy significant demand of fresh cash before Eid festivals (Ramadan & Eid-ul-Azha), SBP BSC makes special arrangements, in collaboration with Field Offices and commercial banks, for issuance of lower denomination of fresh bank notes to the general public. During FY16, SBP BSC issued lower denomination fresh bank notes amounting to Rs 46,887 million to the general public, an increase of 14% over the previous year. Consolidated details of lower denomination fresh bank notes issued on both Eids for the last two years are given in **Table 2.3**.

Year	Pieces	Percentage Increase (%)	Value	Percentage Increase (%)
FY13	2,103	16.1	519,800	17.2
FY14	2,185	3.9	489,997	(5.7)
FY15	2,330	6.6	573,253	17.0
FY16 ⁸	2,610	12.0	911,345	59.0

⁶ Figures as per Statement of Affairs, June 24, 2016.

⁷ Figures confirmed from MPD, SBP and PBS website @ http://www.pbs.gov.pk/sites/default/files/tables/Table_4_.pdf

⁸ Globus figures as on June 30, 2016.

Table 2.3: Distribution of Fresh Bank Notes to Public on the occasion of Eid-ul-Fitr and Eid-ul-Azha
(Pieces and value in million Rs. Figures rounded off to nearest decimal)

	Denominations					Total Pieces	Total Value
	Rs 10/-	Rs 20/-	Rs 50/-	Rs 100/-			
Eids 2015	653	189	232	191		1,266	41,041
Eids 2016	849	292	206	223		1,569	46,887

SBP BSC in collaboration with Pakistan Banks' Association (PBA) introduced a new SMS-based service for issuance of smaller denomination fresh notes to the general public. The introductory service which started on the occasion of Eid-ul-Fitr 2015 on test basis initially from 150 bank branches in 28 cities was expanded to 335 bank branches in 92 cities on the eve of Eid-ul-Azha 2015. The service was further expanded to 500 designated branches in 115 cities during Eid-ul-Fitr 2016 and more than one million people availed fresh bank notes amounting to 14.84 billion through this service.

2.4 Mechanization of Currency Management Operations

Currency Management is a complex and sensitive process, starting from printing and examination/ authentication up to the destruction of bank notes. CMD is continuously striving to improve currency management and operations in an automated environment. To this end, CMD has recently completed successful installation of high-end one-stop Banknote Processing and Authentication System (BPAS) and Banknote Destruction System (BDS) at its Karachi Field Office. These processing solutions are equipped with the capabilities of authentication, counterfeit detection, packing, bundling, shrink wrapping of fit bank notes and online shredding of unfit bank notes etc. Moreover, CMD has also procured desktop note sorters for all the Field Offices and is facilitating the Finance Department in evaluating bank note processing systems for commercial banks in line with its Currency Management Strategy. This service will gradually help in implementation of Currency Management Strategy announced in 2015.

2.5 Monitoring of Currency Operations

As a part of overall Currency Management, CMD oversees onsite examinations of commercial banks' branches through 16 Field Offices in order to ensure that the SBP & SBP BSC's instructions relating to currency and Prize Bonds from time to time are complied by them. During the year under review, the Field Offices examined 3,428 branches of commercial banks in their respective areas. SBP has a long standing agreement with the National Bank of Pakistan under which NBP performs treasury functions on behalf of the Central Bank through its 224 designated branches linked to 16 Field Offices of SBP BSC. The monitoring of compliance to operational requirements by NBP chest branches has been assigned by SBP to SBP BSC. For the first time in FY16, SBP BSC Field Offices examined 223 NBP chest and sub-chest branches and based on the findings recorded during these visits, an analytical report has been prepared, highlighting the irregularities and making recommendations for corrective measures by the NBP Management. The report and its crux has also been shared with NBP management and its Board of Directors.

2.6 National Prize Bonds

National Prize Bonds (NPBs) are bearer-type securities available in eight denominations as elaborated in **Table 2.4**. The sale and encashment of these securities is carried out by all the Field Offices, authorized commercial bank branches and National Savings Centres. Draws of all denominations of NPBs are held only at nine SBP BSC Field Offices on quarterly basis as per schedule announced by the CDNS.

As on 30th June, 2016, the overall value of NPBs held by the general public increased by Rs 123.9 billion, as against an increase of Rs 75.9 billion during last year.

Denom	FY15				FY16			
	Sale	Encashment	Prize Money Payment	Value of NPB held by Public	Sale	Encashment	Prize Money Payment	Value of NPB held by Public
100	1,368	481	494	887	1,130	355	583	774
200	4,464	3,275	1,807	1,189	3,675	1,959	1,866	1,716
750	13,970	7,750	5,157	6,220	14,669	4,512	5,926	10,157
1,500	17,681	9,543	5,950	8,138	18,140	6,290	6,857	11,850
7,500	18,728	10,691	5,165	8,037	18,157	6,872	5,835	11,285
15,000	31,040	19,525	7,717	11,497	34,125	12,968	9,087	21,158
25,000	26,998	11,935	5,111	15,066	35,667	8,899	6,785	26,769
40,000	47,834	22,983	11,231	24,852	54,662	14,468	13,910	40,194
Total	162,083	86,183	42,632	75,886	180,225	56,323	50,849	123,903

Further, prize money payment has also increased, mainly on account of two reasons: (a) lesser encashment and greater holdings of all denominations of NPBs by the general public; and (b) increase in the number of series in every denomination.

2.7 Defence Savings Certificates

Defence Savings Certificates (DSCs) Scheme, introduced in 1966 by the CDNS, is a long-term investment option with a minimum maturity period of 10 years. DSCs are available in various denominations, starting from Rs 500/- with a maximum denomination of Rs 1 million. The feature which makes this investment option lucrative is the automatic reinvestment of profit amount in case of non-encashment, resulting in compounding of profit. The profit payment, currently at 8.68 percent per annum, is either on maturity or encashment with number of years completed.

A comparison between number of cases handled by SBP BSC for sale, encashment and profit payment of DSCs for the last three years is given in **Table 2.5**.

Sr. No.	Office	FY14			FY15			FY16		
		Sale	En-cashed	Profit Payment	Sale	En-cashed	Profit Payment	Sale	En-cashed	Profit Payment
1.	Bahawalpur	0	6	6	3	40	4	97	0	0
2.	D. I. Khan	0	1	1	12	1	1	3	0	0
3.	Faisalabad	315	651	651	401	539	539	269	453	453
4.	Gujranwala	80	473	228	0	1	5	36	0	0
5.	Hyderabad	80	473	228	53	119	55	133	117	113
6.	Islamabad	122	173	230	59	171	276	107	272	272
7.	Karachi	4,061	6,391	5,888	46,240	29,011	0	6,105	31,506	1,540
8.	Lahore	508	1,895	1,895	494	925	1,252	2,880	723	723
9.	Multan	0	2	2	0	0	0	0	0	0
10.	Muzaffarabad	8	20	20	24	4	4	23	8	8
11.	N.Nazimabad	2,366	1,585	1,585	375	390	390	723	1,889	761
12.	Peshawar	24	95	95	87	30	30	26	61	47
13.	Quetta	44	418	418	99	145	145	35	237	237
14.	Rawalpindi	304	697	1,177	710	756	1,333	847	828	719
15.	Sialkot	72	98	98	25	16	15	188	89	89
16.	Sukkur	36	60	60	29	54	54	148	144	46
Total:		8,020	13,038	12,582	48,611	32,202	4,103	11,620	36,327	5,008

2.8 Special Savings Certificates

Special Savings Certificates (SSCs) Scheme, introduced by CDNS in 1990, has mainly focused on lower to middle income investors with steady income. These certificates are available in various denominations, starting from Rs. 500/- and going up to Rs. 1 million with a maturity period of three years. Profit coupons are payable biannually, currently at the rate of 6.8 percent for the first five and 8.0 percent for the last coupon. A comparison between number of cases handled by SBP BSC for sale, encashment and profit payment of SSCs for the last three years is given in Table 2.6.

Sr. No.	Office	FY14			FY15			FY16		
		Sale	En-cashed	Profit Payment	Sale	En-cashed	Profit Payment	Sale	En-cashed	Profit Payment
1.	Bahawalpur	0	0	2	0	1	3	38	5	5
2.	D. I. Khan	0	1	1	0	0	0	0	0	0
3.	Faisalabad	911	1,116	5,155	1,263	1,151	4,215	433	907	907
4.	Gujranwala	1	0	0	4	1	1	8	4	4
5.	Hyderabad	458	513	180	579	479	288	260	1,047	1,047
6.	Islamabad	81	75	230	62	151	438	195	306	306
7.	Karachi	9,395	15,030	22,110	84,788	38,179	127,933	36,594	46,496	46,496
8.	Lahore	1,576	1,448	4,651	1,834	2,967	2,376	5,872	1,599	1,599
9.	Multan	8	10	18	0	6	8	0	3	3
10.	Muzaffarabad	7	26	65	10	18	20	0	4	4
11.	North Nazimabad	6,527	7,198	11,926	3,808	2,787	5,010	3,757	5,670	5,670
12.	Peshawar	87	107	370	82	143	301	125	41	41
13.	Quetta	33	47	44	55	42	63	10	18	18
14.	Rawalpindi	586	832	2,377	2,417	942	836	1,803	702	702
15.	Sialkot	238	361	198	30	67	67	62	144	144
16.	Sukkur	5	17	22	17	40	56	154	40	40
Total:		19,913	26,781	47,349	94,949	46,974	141,615	49,311	56,986	56,986

2.9 HR Capacity Building

In line with SBP BSC's efforts to broaden the officers' knowhow about the overall organizational practices, CMD is striving to provide its officers varied opportunities to acquire exposure about the best international practices on cash processing. To this end, a considerable number of officers were nominated to participate in various local and international programs, which included Cash Seminar arranged by Czech Central Bank, Exposure Visit of Currency Management Team and High Securities Printing Conference in Indonesia, etc. Further, officers have also been nominated for function-specific and soft skills training programs conducted by NIBAF and other reputable institutions like the Institute of Bankers Pakistan (IBP), Pakistan Institute of Management (PIM), Pakistan Society for Training and Development (PSTD) etc.

2.10 Future Outlook

CMD is undertaking various projects to automate the cash handling as part of Currency Management Strategy. Currently, efforts to improve cash processing and handling mechanism at SBP BSC Field Offices are underway. Furthermore, various developmental initiatives are being undertaken to ensure the immediate and long term success of CMS both within SBP BSC and at commercial banks.

All these initiatives are aimed at improving the quality and useful life of bank notes in circulation by eliminating manual interventions in cash operations, enhancing the role of commercial banks in cash sorting and re-circulation and improving banking sector's capacity to detect counterfeit bank notes. This will be achieved by installing high quality cash authentication machines at all Field Offices and commercial banks' branches. Meanwhile, CMD is initiating a project to improve its remittance and cash movement mechanism by adopting best practices as major part of currency is exchanged at Field

Offices. Going forward, the banking industry will also use similar cash transportation and handling mechanism for moving cash in a secured environment.

For automation of cash operations within SBP BSC, the CMD has carried out a detailed need assessment of cash handling machines required at all Field Offices. This assessment has been carried out in view of their current and future expected receipt and processing of all denominations' bank notes. The machines will be procured as per PPRA rules.

It is also intended that SBP BSC shall handle fresh and unfit banknotes only and the major exchange of re-issuable currency notes shall take place between commercial banks directly. For this purpose, the CMD plans to introduce Interbank Trading of Cash from January 2, 2017 as per Currency Management Strategy.

To extend and streamline the cash sorting and ATM feeding procedures of banking industry, the CMD plans to develop an appropriate policy to bring our cash transit activities in line with international standards.

CMD is also actively coordinating with CDNS and PSPC for automation of prize bond operations. As Pakistan's economy continues to grow, it is expected that currency in circulation and prize bonds will also keep on increasing over the next several years. Therefore, in the long-term, CMD is looking forward to establishing more smart offices by increasing its network.