

1 Currency Management

State Bank of Pakistan (SBP) being a central bank is responsible for issuance of banknotes. CMD through 16 field offices of SBP BSC also ensures and supervises distribution of banknotes across Pakistan and also the lifting of unfit bank notes from the markets using branches of the commercial banks and chest branches of National Bank of Pakistan. The CMD works with an ultimate goal to ensure public confidence in the currency of Pakistan and that, banknotes continue to be a tool of an effective payment mechanism and a secure store of value.

1.1 Overview

State Bank of Pakistan (SBP) being a central bank is responsible for the issuance of banknotes. The distribution of banknotes across Pakistan is one of the core responsibilities of the SBP Banking Services Corporation (Bank). The Currency Management Department (CMD) of BSC through its 16 field offices ensures and supervises distribution of banknotes across Pakistan. The CMD also manages retrieval of unfit bank notes from circulation with the help of commercial banks as also chest branches of the National Bank of Pakistan. The unfit banknotes so retrieved, are destroyed through a systematic process in a controlled environment covered through CCTV.

The ultimate goal of the CMD is to ensure public confidence in the currency, such that banknotes continue to be an effective payment mechanism and a secure store of wealth. This confidence is maintained by:

- Making sure that good quality banknotes are available in the market to meet the publics' demand;
- Maintaining clean banknotes in circulation under Clean Note Policy (CNP) of the State Bank of Pakistan;
- Imposition of monetary penalties on the banks that fail to meet the instructions and requirements of the CNP as also those relating to issuance of fresh notes; and

Highlights

- Development of SOPs for the installation of Lockers (Pigeon Holes) at Examination Halls/ Verification Units.
- Installation of Electronic Access Control System at some Offices of SBP BSC.
- For the FY11; 1,734.68 million pieces of Fresh Notes were delivered by PSPC, out of which 1,633.25 million pieces have been issued to Commercial Banks, general public and other stake holders.
- Development of SOPs for posting of Treasury Officers at SBP/ Customs Joint Booths at Airports.
- Development of Uniform practices for processing of Claim notes.
- Successful management of distribution of two new commemorative coins of Rs.20/- denomination each.
 - 2011 – The Year of Pak-China Friendship with effect from 21st May, 2011, marking the 60th year of Pakistan-China friendship.
 - 150 Years Celebration – Lawrence College, Ghora Gali, Murree with effect from 28th May, 2011.

- Coordinating with law enforcement agencies to protect general public against counterfeiting banknotes.

1.2 Circulation of Banknotes

CMD is responsible for distribution of good quality bank notes to meet the demand for banknotes and coins throughout the country. The demand for currency in circulation during the last few years has increased at a faster rate. This demand is highly seasonal; it increases sharply, at the time of cotton and wheat harvest as also during the holy month of Ramadhan; and Eid-ul-Azah. Traditionally it used to fall after these occasions; however this phenomenon has not been witnessed at its normal pace during last two to three years, as is reflected from the increase in growth rate of Currency in Circulation.

	Rs.5	Rs.10	Rs.20	Rs.50	Rs.100	Rs.500	Rs.1000	Rs.5000	Total
FY08	-	9.5	6.1	10.7	116.8	174.5	500.6	227.9	1,046.0
FY09	2.3	9.0	7.0	14.9	115.8	186.0	565.7	323.0	1,223.7
FY10	4.6	10.1	7.9	17.1	119.3	193.0	618.0	407.4	1,377.4
FY11	5.7	11.5	8.6	20.0	122.6	211.0	756.0	464.7	1,600.0

Over the time, demand for currency has been rising at the annual average rate of around 15.7 percent since FY07 to FY11 (**Table 1.1**). During FY11, several factors led to significantly sharper increase in demand specifically:

- Devastating flood during last year which affected 18 million people and costed more than 5.3 million jobs as well as crop loss in rural areas also increased the demand for currency on account of relief package announced by the Government as also other relief activities by the private sector organizations, volunteers etc; during flood in 2010 which boosted demand for cash when these payments were made;
- The increased level of remittance has raised demand for the bank notes as the remittances are generally utilized for consumption purposes by their recipients in Pakistan;
- The increasing level of budget deficit continued to force government to rely more on borrowings from banking sector as also SBP to meet its expenditure;
- Increase in the demand for currency was also because of double-digit inflation during this period;
- Though the use of plastic money i.e. Credit Cards & Debit Cards has been growing in Pakistan, however the society still has a strong preference for using cash as a medium of exchange, thus increasing demand for banknotes;
- Although the number of ATM's installed in different cities is substantially increasing, but the system is still not robust. Also, ATMs generally target urbanized population and are largely concentrated in urban centers and do not focus much on the rural areas, all these factors as also prevailing social unrest in the country have contributed to the demand for cash holding;
- The tendency to increase holding of banknotes by both SBP BSC and commercial banks to meet the enhanced demand for cash withdrawal arising out of all or any of factors listed in a) to f) above;

This is evident from the fact that growth in CiC, (after depicting declining trend in FY10) since FY08 to FY10, has witnessed a sharp increase of 16 percent to Rs.1,600 billion (8.9 percent of GDP) in FY11 as compared to 12.6 percent in the corresponding period last year. Notably, since the last four years there has been more than 50 percent increase registered in CiC due to increase in government borrowings and demand for cash by the society (**Table 1.2**), (**Figure 1.1**).

Table 1.2: Currency in Circulation as percent of GDP

	Currency in Circulation million Rupees	Percentage Change in CiC over previous year	Percentage Change in CiC since base 2008 (Base Year)	Nominal GDP (MP) million Rupees	Currency in Circulation As % of GDP
FY08	1,046,003.9	17.08	-	10,242,799	10.2
FY09	1,223,717.6	16.99	16.99	12,723,987	9.6
FY10	1,377,394.9	12.56	31.68	14,836,536	9.3
FY11	1,599,988.0	16.16	52.96	18,062,901	8.9

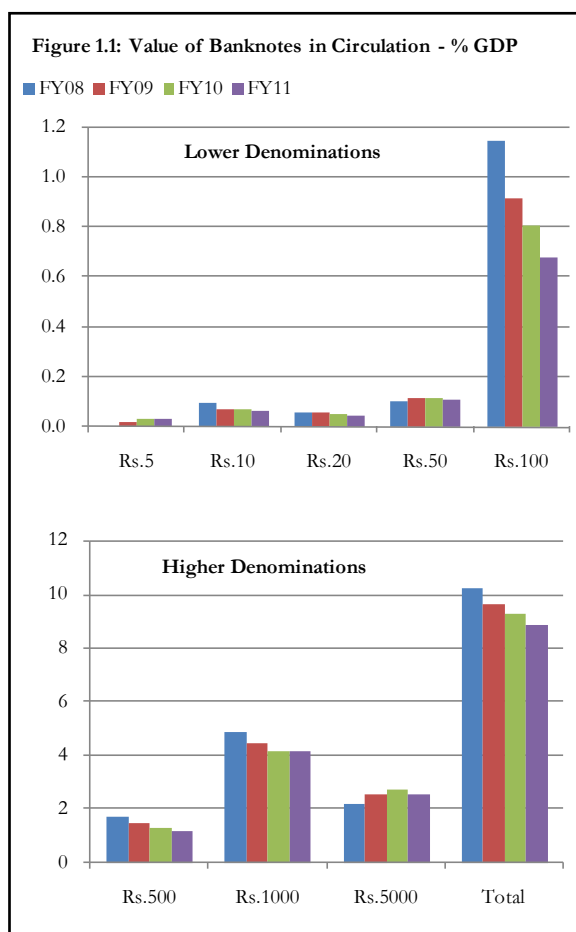
CMD also formulates policies regarding handling of banknotes at its field offices besides arranging awareness programs on different aspects of currency including security features of banknotes for the general public throughout the year using field offices of SBP BSC.

The department also manages retrieval and destruction of banknotes which become not-fit-for-circulation due to wear & tear.

The increase in number of pieces of the bank notes, reduction in the SBP BSC's work force over the years due to natural attrition and early retirement etc; have necessitated the use of technology in managing the currency. Therefore in the wake of changing priorities, focus at CMD during last few years has remained on improving efficiency of the existing system by strengthening system based controls as also introducing more robust internal controls for handling and processing of banknotes. In this context, a number of new instructions were issued besides modifying the existing ones.

1.2.1 New Instructions Issued

1. Uniform practice for preparing case sheet for claim notes L-4;
2. Procedure for filing appeals against rejections of the Claim for seeking exchange value of the Claim Note;



3. Designing of new SOPs for
 - a. Posting of Treasury Officers at SBP/ Customs Joint Booths at Airport;
 - b. Deposit of personal cash by the officials posted at Examination Halls/ Verification Units;
4. Instructions for destruction of Rs.5 notes under the Special Procedure;
5. Development of a procedure for monitoring of chest operations of the National Bank of Pakistan.

1.2.2 Modifications of existing Instructions

1. Sorting charges have been enhanced from Rs.200 to Rs.350 per bundle in case the commercial banks deposit unsorted balances;
2. Instructions regarding issuance of balance to examiners and their acknowledgement have been amended to take acknowledgement from the examiner on deal slip generated from the system on completion of each transaction; however, final acknowledgement shall be obtained on the system generated Form E-6 after completion of work of the above section;
3. Passing of Claim Notes of Rs.5,000/- denomination: Offices have now been advised to authorize a senior most OG-3 to pass claim notes of Rs.5,000/- denomination along with the available OG-4/ OG-5 in case of non-availability of second OG-4/ OG-5 being on leave or on official assignment;
4. Revision in operation procedure of note shredding process;
5. Labeling of E-34 slip on defaced notes packet has been done away with, except for evening collection balance;

Besides above, Circulars relating to Currency Management and National Savings have been uploaded at Electronic Notice Board for the facilitation of all concerned.

1.3 CMD's Achievements/ Initiatives

1.3.1 Issuance of Commemorative Coins-successful distribution through offices

Federal Government through Ministry of Finance, Government of Pakistan authorized the State Bank of Pakistan to issue Rs.20/- Commemorative Coins on the occasion of Pak - China friendship by the name of "2011 – The Year of Pak-China Friendship" with effect from 21st May, 2011. A rupee twenty - commemorative coin was also issued on the occasion of 150 Years Celebration of establishment of Lawrence College, Ghora Gali, Murree with effect from 28th May, 2011. The SBP BSC was assigned the job to lift 100,000 pieces each of both commemorative coins from Pakistan Mint and to make necessary arrangements for their issuance to general public by the due date from the counters of its 16 field offices. Out of 100,000 coins minted for Pak-China Friendship – 79,182 coins have been issued to the general public, whereas in case of commemorative coin in respect of 150 Years Celebration of Lawrence College Ghora Gali, Murree only 46,501 coins have been obtained by the general public. The office wise detail is given in Table 1.3.

Table 1.3: Issuance of Commemorative Coins

Office	2011 - Year Of Pak-China Friendship			150 Years Celebration – Lawrence College, Ghora Gali, Murree		
	Coins Allotted	Issue to General Public	Stock as on 30 th June, 2011	Coins Allotted	Issue to General Public	Stock As on 30 th June, 2011
Karachi	18,000	13,867	4,133	18,000	12,679	5,321
N. Nazimabad	2,000	2,000	NIL	2,000	2,000	NIL
D I Khan	2,000	545	1,455	2,000	367	1,633
Lahore	12,000	11,447	553	12,000	8,375	3,625
Peshawar	8,000	4,450	3,550	8,000	3,400	4,600
Islamabad	14,000	12,000	2,000	14,000	4,005	9,995
Muzaffarabad	2,000	543	1,457	2,000	172	1,828
Sukkur	4,000	4,000	NIL	4,000	668	3,332
Hyderabad	4,000	3,800	200	4,000	1,500	2,500
Rawalpindi	6,000	5,740	260	6,000	2,230	3,770
Sialkot	4,000	3,200	800	4,000	1,600	2,400
Faisalabad	6,000	5,115	885	6,000	3,300	2,700
Bahawalpur	4,000	1,700	2,300	4,000	650	3,350
Quetta	4,000	3,950	50	4,000	2,400	1,600
Multan	6,000	4,000	2,000	6,000	1,155	4,845
Gujranwala	4,000	2,825	1,175	4,000	2,000	2,000
Total	100,000	79,182	20,818	100,000	46,501	53,499

1.3.2 Development of MIS Reports in Currency Globus

With a view to improve the efficiency and discontinue redundancies in the MIS, various new reports have been developed in Currency Globus in collaboration with Information Systems & Technology Department (ISTD) of SBP. Following is a list of some of the important reports developed in Currency Globus this year:

- Enquiries have been added in the menu of re-issuable, defaced and defective receipts/examined to check the daily position of different categories of currency balances (bonded and Chest) examined in Cash Department / received over counters/other banks days receipt;
- A new field in GLOBUS i.e. “Date of Receipt” has now been provided in the relevant enquiry to facilitate the Offices in examining balances held under guarantee on First in First Out basis (FIFO);
- A new version was developed with the name “capture personal locker information” and addition of one report each in E-90 & V-7 Locker;
- An enquiry showing various categories of notes held at field offices (HO – Daily) has been developed;
- An enquiry showing separately the fresh and re-issuable notes issued by the Field Offices to Box Balances during the period has also been developed.

1.3.3 Implementing Clean Note Policy

As already stated one of the major activities of the CMD is to implement the Clean Note Policy (CNP) of the State Bank of Pakistan. This policy is complied with through two pronged strategy, lifting of the soiled notes form circulation and replacing them with the fresh bank notes. During FY 2010-11 around 1,929 million pieces valuing Rs.380 billion were issued to banks, different government departments and other stakeholders as against 1,821 million pieces valuing Rs.316 billion during FY10 showing an increase of 20% in value terms. Denomination wise breakup of fresh currency notes issued during FY11 and FY10 is given in Table 1.4.

Table 1.4: Issuance of Fresh Banknotes during FY11 & FY10

Year	Denomination(Rs.)								(value in millions)	
	5	10	20	50	100	500	1000	5000	Total Pieces	Total Value
FY11	2,281	5,693	3,326	8,389	18,371	63,177	254,818	24,110	1,929	380,165
FY10	2,455	5,430	3,300	7,000	21,800	52,000	144,000	80,000	1,821	315,985

1.3.4 Fresh Notes for Eid

Bulk of the above fresh bank notes especially of small denomination was issued on the eve of Ramadan/Eid-ul-Fitr. Fresh currency notes amounting to Rs.95.3 billion were issued on the eve of Ramadan/Eid-ul-Fitr of 2010 as against Rs.74.4 billion issued during Ramadan/Eid-ul-Fitr 2009. As per the arrangements, one packet each of Rs.5/- and Rs.10/- denomination notes was provided to the customers from the counters of commercial banks as against exchange value and on presentation of original CNIC and its photocopy. Commercial banks were also allowed to issue up to a maximum of five packets each of Rs.5 and Rs.10 denomination fresh notes to their corporate clients on receipt of request on company's letter head duly signed by an authorized representative (Table 1.5). The fresh currency notes to general public are issued through more than 9,200 branches of commercial banks.

Table 1.5: Distribution of fresh notes to Public through Commercial Banks on the occasion of Eid-ul-Fitre

Year		Denomination								Total Pieces	Total Value
		5	10	20	50	100	500	1000	5000		
Ramadan 2010	Govt. Payments	4	4	2	2	3	1	2	0	18	3.787
	Banks	248	323	92	92	51	38	51	1	896	91.499
	Total	252	327	94	94	54	39	53	1	914	95.286
Ramadan 2009	Govt. Payments	8	8	3	3	6	2	4	1	35	8.93
	Banks	237	237	69	53	49	20	27	3	695	65.485
	Total	245	245	72	56	55	22	31	4	730	74.415

1.3.5 Demonetization of Rs.500/- Old Design Banknote & Rs.5/- Banknote

Federal Government through its Gazette Notification dated 27th December, 2010 announced the demonetization of Rs.500/- old design bank note w.e.f 1st October, 2011 after which the same will cease to be legal tender. Commercial banks were advised by the CMD to stop the issuance of re-issuable Rs.500/- old design bank notes with effect from 1st January, 2011. However, as it would remain legal tender up to 30th September, 2011 the commercial banks will keep accepting the Rs.500/- old design banknotes by exchanging the same with the banknotes and coins of all denominations. Commercial Banks have been advised to surrender these notes to the nearest Field Office of SBP BSC/ Chest Branches of NBP in suitable lots up to 30th September, 2011.

Subsequently, the Federal Government also decided on 22nd December 2010 to demonetize Rs.5/- banknote and it would cease to be legal tender w.e.f 1st January, 2012. In this case, Commercial banks have been advised to stop issuance of issuable/ re-issuable Rs.5/- bank notes with effect from 1st July, 2011. However, as Rs.5/- bank note in circulation will remain legal tender up to 31st December 2011, the commercial banks will keep on accepting it by exchanging the same with the banknotes and coins of all denominations. Commercial Banks have been advised to surrender these notes of Rs.5 denomination to the nearest Field Office of SBP BSC/ Chest Branches of NBP in suitable lots up to 31st December, 2011.

In order to ensure that general public is made aware of the intended demonetization of Rs.5 and old design Rs.500 bank notes the CMD in collaboration with the Finance Department of the State Bank of Pakistan initiated an awareness drive. Under the same

commercial banks were advised to display the announcements regarding the demonetization of Rs.500 (old design) and Rs.5 bank notes at their cash counters in line with their advertisement policy. Further 50,000 posters (10,000 in English & 40,000 in Urdu) were also got printed and provided to all field offices of SBP BSC for onward distribution and display of the same at:

- Commercial Banks for display at a prominent place, preferably next to the entrance gates of all of their branches;
- Next to the customer counters of all the Post Offices;
- Main entrance of major shopping malls and bazaars;
- All major Government/ Private Schools, Colleges & Universities;
- The respective Chambers of Commerce as well as other Trade Bodies;
- Outside the Office of Nazims, Tehsildars, District Officers & Chowks (gathering point in the evenings)–for rural areas.

1.3.6 Cash Monitoring

Currency Management Department, in pursuance of the Clean Note Policy conducts Cash Monitoring of scheduled banks throughout the year through field offices of SBP BSC. During FY11, a total of 5,098 branches of commercial banks were examined to check record pertaining to cash management as compared to 5,484 branches examined during last year. Further a cumulative penalty of Rs.9.980 million was recovered from the scheduled banks this year as compared to Rs.8.427 million recovered during the previous year. The above mentioned penalties have been recovered from the banks on different irregularities and violations of Clean Note Policy issued by SBP/ BSC and procedure for undertaking cash monitoring work (Table 1.6).

Table 1.6 Cash Monitoring

Period	Number of Branches Monitored	Penalty Recovered (Rs. in millions)
FY11	5,098	9.980
FY10	5,484	8.427

1.3.7 General Awareness Initiative

Currency Management Department in collaboration of all sixteen offices of SBP BSC continued to organize public awareness campaigns to educate the general public, banks' employees dealing with cash and members of law enforcement agencies regarding security features of banknotes as also other aspects pertaining to the maintenance of the bank notes. Office-wise distribution of programs arranged on the above topics is mentioned in Table 1.7.

Table 1.7 Awareness Program arranged during FY11

Name of Office	Programs Arranged
1 Bahawalpur	4
2 D.I. Khan	12
3 Faisalabad	12
4 Hyderabad	12
5 Islamabad	15
6 Karachi	15
7 Lahore	7
8 Multan	13
9 Muzaffarabad	13
10 N.N. Karachi	12
11 Peshawar	12
12 Sialkot	9
13 Sukkur	14
Total	150

1.4 Mechanization of Currency Operations

A traditional responsibility of a central bank is to issue and distribute currency notes to serve the country's economy. One could hardly imagine that a modern economy could function smoothly without any cash transaction. Regardless of our achievement in advancing non-cash payment system, cash still remains a critical payment instrument. Also, with Currency in Circulation on an increasing trend, managing currency thus

requires modern equipments and technology to handle huge cash transactions and demand for paper based currency/banknotes, especially in a society like Pakistan where paper based currency notes are still preferred for making payments. The Cash Handling Machines can absorb the quantum of such a large quantity of Banknotes and attain efficient Cash Management at BSC offices besides simultaneously providing value added services to all the Stakeholders. To handle huge cash transactions different types of Cash Handling Machines have been introduced in the offices of SBP-BSC across Pakistan. These machines include; a) Bundle Banding Machine, b) Coin Counting Machine, c) Shredding Machine with Pressing Technology, c) Multi Function Counterfeit Detector, e) Note Packet Counting Machine, f) Paper & Packet Banding Machine, g) Shrink Wrapping Machines, h) Three hole Punching Machine (with specific pin hole design), i) Triangular Cutting Machine, j) Tri Color stamping Machine and other smaller machines which have been installed at the 16 Field Offices of SBP BSC. The details of machines/equipments which are presently in use at field offices for Currency operations as on 30-06-2011 are given in Table 1.8.

Table 1.8 : Cash Handling Machines held at BSC Field Offices As on 03-06-2011

	Description	Lahore	Islamabad	Karachi	Hyderabad	Peshawar	Quetta	Rawalpindi	N.Nazimabad	Multan	Faisalabad	Gujranwala	Bahawalpur	Sukkur	Sialkot	D I Khan	Muzaffarabad	Total
1	Note Packet Counting Machine	7	8	15	18	8	9	7	7	9	2	4	2	2	1	1	2	102
2	Multi Function Counterfeit Detector	1	16	5	2	5	2	4	5	-	3	-	2	2	1	-	1	49
3	Coin Counting Machine	5	4	5	2	8	2	2	1	2	1	1	1	-	4	2	1	41
4	Tri Color stamping Machine	3	2	3	1	3	2	2	1	1	2	1	2	2	1	1	1	28
5	Bundle Banding Machine	10	6	3	2	-	2	3	-	1	-	-	-	-	-	-	-	27
6	Triangular Cutting Machine	4	2	3	2	3	2	2	1	2	2	-	-	1	-	1	-	25
7	Paper & packet Banding Machine Heavy	4	6	4	3	2	3	-	-	-	-	1	-	-	-	-	1	24
8	Three hole Punching Machine (with specific pin hole design)	5	-	2	2	2	3	1	1	1	-	2	3	1	-	-	-	23
9	Shrink Wrapping Machine Light Weight	3	-	3	1	-	-	-	1	1	1	1	-	-	1	1	-	13
10	Shredding Machine with Pressing Technology	2	-	-	-	-	-	1	1	-	-	-	-	1	-	-	-	5
11	Shrink Wrapping Machine heavy Duty	-	-	-	-	-	-	2	1	-	-	-	-	-	-	-	-	3
	TOTAL	44	44	43	33	31	25	24	19	17	11	10	10	9	8	6	6	340