

Currency Management



2 Currency Management

Currency management primarily entails ensuring the uninterrupted supply of good quality bank notes and coins across the country and managing their stocks with the help of 16 SBP BSC Field Offices including four Issue Offices supervised by the Currency Management Department (CMD). CMD also manages the sales, encashment and prize draws of National Prize Bonds on behalf of the Central Directorate of National Savings (CDNS) and closely liaison with Pakistan Security Printing Corporation (PSPC) for their printing. Taking stock of the latest developments and international best practices regarding currency processing, the CMD has been striving to upgrade the currency operations in Pakistan through introduction of a comprehensive and state-of-the-art solutions commensurate with our environment and challenges.

2.1 Overview

Currency Management Department (CMD) maintains close liaison with Finance Department of SBP and Central Directorate of National Savings (CDNS) for seeking policy directions dealing with matters relating to currency management and executing CDNS's national savings schemes.

CMD's utmost objective is to ensure:

- i) Smooth and equitable issuance of fresh/re-issuable bank notes through 16 Field Offices, 224 NBP chests/sub-chests and commercial banks;
- ii) Sale, encashment of prize bonds and savings certificates and conducting prize bonds draws as per laid down procedures;
- iii) Implementation of SBP's Clean Note Policy through a comprehensive and fair system of on-site monitoring mechanism and,
- iv) Alignment of our existing currency management framework with the prevailing best international practices.

Box 2.1: Achievements during FY15

- Completion of bid process for procurement of Banknote Processing and Authentication System Machines.
- Completion of bid process for procurement of desktop currency sorters with authentication for Field Offices.
- Updating information regarding security features of Bank Notes and uploading circulars on the CMD webpage.
- Managed with the help of Field Offices, verification of 197 NBP chests/sub-chests and around 2,000 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 Clean Note Policy of SBP.

CMD also maintains close coordination with the concerned SBP departments in order to facilitate efforts of Law Enforcement Agencies (LEAs) and Federal Investigation Agency (FIA) in combating counterfeiting of currency notes. The department is currently focusing on procurement of sophisticated hardware and software so as to check counterfeiting and establishing a Forensic Laboratory to improve in-house capabilities for detecting the counterfeit bank notes and tampered prize bonds. CMD also works, in close coordination with Finance Department, for further enhancing the security features in bank notes.

The department, in collaboration with SBP BSC Field Offices, is actively engaged in educating the general public/stakeholders about the security features of bank notes by arranging awareness

programs round the year. These programs also focus on SBP's Clean Note Policy (CNP). CMD also designs and prints posters and brochures focusing on security features of all denominations of currency notes, which are provided free of charge to Field Offices/commercial banks.

The department keeps a close watch on the consumption of bank notes and coins in the country, provides feedback to respective SBP departments for policy formulation and forecasts demand for printing of new bank notes and minting of additional coins.

CMD actively remained involved in the development of future vision for currency management in Pakistan. For this purpose, the department developed a currency management strategy, in coordination with the Finance Department of SBP, which was presented in the Currency Management Conference held at Lahore in February 2015. It also provided major input for developing an Action Plan for various strategies as spelt out in the Currency Management Vision.

2.2 Circulation of Bank Notes

Pakistan is a cash-centric economy with majority of transactions conducted in cash, despite increase in online, internet and mobile bank account facilities and the wider plastic money options. This is one of the leading causes of increase in notes-in-circulation (NIC). During the last few years, NIC has increased significantly. (Table 2.1)

The annual growth in NIC during FY15 was 18.1 percent as against 13.1 percent recorded in FY14. The NIC as percentage of Gross Domestic Product (GDP) stood at 10.0 percent in FY15, slightly higher than 9.2 percent recorded in FY14.

Years	Nominal GDP (MP) ² (billion Rupee)	NIC (billion Rupee)	NIC as % of GDP	Percentage (%) Change in NIC Over Previous Year
FY09	13,199.7	1,223.7	9.3	17.0
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	2,042.5	9.1	14.9
FY14	25,068.1	2,309.2	9.2	13.1
FY15 ³	27,383.7	2,726.5	10.0	18.1

Note: The figures have been rounded off to the nearest decimal place.

2.3 Issuance of Fresh Bank Notes

CMD, with the help of 16 Field Offices and 224 chests/ sub-chests across the country, ensures smooth and uninterrupted supply of fresh bank notes throughout the year. The value of fresh bank notes issued during the year under review has increased by 17.0% over the previous year as against 5.7% decline during FY14. (Table 2.2)

Year	Pieces	Percentage Increase (%)	Value	Percentage Increase (%)
FY12	1,811		443,601	
FY13	2,103	16.1	519,800	17.2
FY14	2,185	2.6	489,997	(5.7)
FY15 ⁴	2,330	6.6	573,253	17.0

² Pakistan Bureau of Statistics.

³ Figures as per Statement of Affairs (Issue Department) June 26, 2015.

⁴ Globus figures as on June 30, 2015. These figures may be considered final.

2.3.1 Distribution of Fresh Bank Notes to Public on Religious Occasions

SBP BSC makes special arrangements, in collaboration with commercial banks, for issuance of all denominations of fresh bank notes to general public on the occasions of Eid-ul-Fitr and Eid-ul-Azha. It also issues fresh bank notes to Hindu and Christian employees of the Bank on their religious festivals. SBP BSC, through its 16 Field Offices and 150 designated branches of commercial banks, issued fresh bank notes amounting to Rs 154.5 billion to the general public during Ramazan 2014 as compared to Rs 138.6 billion during the corresponding period in Ramazan 2013, a substantial increase of 11.5 percent. Details of fresh bank notes issued over Eid-ul-Fitr 2013 and 2014 are given in **Table 2.3**.

Table 2.3: Distribution of Fresh Notes to Public on the occasion of Eid-ul-Fitr											
Pieces: in million, Value: billion Rupee											
		Denominations								Total Pieces	Total Value
		Rs 10/-	Rs 20/-	Rs 50/-	Rs 100/-	Rs 500/-	Rs 1,000/-	Rs 5,000/-			
Ramazan 2013	Total	641.6	152.3	128.6	151.7	43.7	73.7	2.4	1,194.0	138.6	
Ramazan 2014	Total	497.7	161.7	139.3	161.6	36.9	78.7	5.2	1,081.1	154.5	

Note: Figures rounded off to nearest decimal place

During Ramazan 2015, SBP BSC introduced a new SMS-based service for issuance of fresh bank notes of smaller denominations to the general public. The introductory service started on test basis was utilized by 164,882 individuals to get fresh bank notes from around 150 branches of banks in 28 cities. Going forward, we intend to expand the outreach of this scheme, which was appreciated by the general public and also by banks, to a large number of cities.

2.4 Mechanization of Currency Management Operations

With a view to overhauling currency operations in the light of Pakistan's cash-centric economy, CMD is currently in the process of procuring high-end, one-stop currency processing solutions equipped with the capabilities of authentication, counterfeit detection, packeting, bundling and on-line shredding etc.

2.5 Monitoring of Currency Operations

CMD also oversees on-site examinations of commercial banks' branches conducted by 16 SBP BSC Field Offices across the country in order to ensure compliance of all currency and prize bonds related instructions issued by SBP and SBP BSC from time to time. During FY15, SBP BSC Field Offices examined over 2,000 branches of commercial banks in their respective areas. SBP also has an agency agreement with National Bank of Pakistan, under which NBP performs treasury functions on behalf of the Central Bank at its 224 designated branches. The operational aspect of this agency agreement has been assigned by SBP to SBP BSC. For the first time in FY15, Field Offices examined 197 NBP chest and sub-chest branches. Based on their findings, an analytical report has been prepared, highlighting irregularities and making recommendations for corrective action by NBP management.

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 16 SBP BSC Field Offices, authorized commercial bank branches and National Savings Centres of CDNS. Draws of all

denominations are held only at nine SBP BSC Field Offices on quarterly basis, as per schedule announced by CDNS.

Table 2.4: Total NPB Sale & Encashment at SBP BSC Field Offices (million Rupee)								
Denom	FY14				FY15			
	Sale	Encashed	Prize Money Payment	Value of NPBs held by Public	Sale	Encashed	Prize Money Payment	Value of NPBs held by Public
100	2,267.14	604.84	381.09	1,662.30	1,367.8	481.2	493.8	886.6
200	5,380.91	4,411.10	1,708.35	970.57	4,464.1	3,275.1	1,806.78	1,189.02
750	14,543.80	9,855.79	4,529.37	4,688.01	13,969.7	7,749.9	5,157.3	6,219.8
1,500	18,137.77	11,627.02	5,077.26	6,510.74	17,680.95	9,543.2	5,950.06	8,137.76
7,500	17,659.16	13,372.37	4,503.00	4,286.78	18,727.9	10,691.1	5,165.3	8,036.78
15,000	32,940.83	23,994.92	6,407.11	8,945.91	31,039.5	19,524.5	7,716.52	11,496.96
25,000	25,448.88	14,273.75	3,956.17	11,175.13	26,997.9	11,935.1	5,110.65	15,065.9
40,000	45,225.92	26,416.96	9,308.4	18,808.96	47,834.4	22,982.6	11,230.7	24,851.72
Total	161,604.41	104,556.75	35,870.75	57,048.40	162,082.25	86,182.7	42,631.11	75,884.54

Overall value of NPBs held by public increased by 33 percent during FY15 whereas value increased by Rs 18.84 billion approximately over FY14. Further, prize money payment has also increased, mainly due to two reasons: (a) lesser encashment and greater holdings by general public in all NPB denominations; and (b) increase in number of series in every denomination, leading to an overall greater number of prizes.

2.7 Defence Savings Certificates

Defence Savings Certificates (DSCs) Scheme, introduced in by CDNS in 1966, 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.

From the data, it is evident that overall sale of DSCs is steadily on the rise, which may be attributable to the fact that the Federal Government's Notification No. F.21 (I) GS-1/2011-876 dated June 27, 2012, had allowed the institutions to invest their funds (pension, gratuity, retirement benefits etc.) in this instrument. A comparison between number of cases handled by SBP BSC regarding sale, encashment and profit payment of DSCs for the last three years is given in **Table 2.5**.

Table 2.5: Number of DSC Cases handled by SBP BSC Field Offices										
Sr. No.	Office	FY13			FY14			FY15		
		Sale	En-cashed	Profit Payment	Sale	En-cashed	Profit Payment	Sale	En-cashed	Profit Payment
1.	Bahawalpur	3	21	21	0	6	6	3	40	4
2.	D. I. Khan	1	2	2	0	1	1	12	1	1
3.	Faisalabad	261	932	932	315	651	651	401	539	539
4.	Gujranwala	181	285	285	80	473	228	0	1	5
5.	Hyderabad	181	285	285	80	473	228	53	119	55
6.	Islamabad	91	296	290	122	173	230	59	171	276
7.	Karachi	3,361	5,942	5,705	4,061	6,391	5,888	46,240	29,011	0
8.	Lahore	583	2,143	2,143	508	1,895	1,895	494	925	1,252
9.	Multan	0	26	26	0	2	2	0	0	0

10.	Muzaffarabad	18	17	17	8	20	20	24	4	4
11.	N. Nazimabad	532	1,092	1,092	2,366	1,585	1,585	375	390	390
12.	Peshawar	100	237	237	24	95	95	87	30	30
13.	Quetta	109	305	305	44	418	418	99	145	145
14.	Rawalpindi	356	1,025	1,303	304	697	1,177	710	756	1,333
15.	Sialkot	87	230	230	72	98	98	25	16	15
16.	Sukkur	58	135	123	36	60	60	29	54	54
Total:		5,922	12,973	12,996	8,020	13,038	12,582	48,611	32,202	4,103

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 goes up to Rs 1 million, with a maturity period of three years. Profit coupons are payable bi-annually. A comparison between number of cases handled by SBP BSC with regard to sale, encashment and profit payment of SSCs for the last three years is given in **Table 2.6**.

Sr. No	Office	FY13			FY14			FY15		
		Sale	En-cashed	Profit Payment	Sale	En-cashed	Profit Payment	Sale	En-cashed	Profit Payment
1.	Bahawalpur	1	3	3	0	0	2	0	1	3
2.	D. I. Khan	0	0	0	0	1	1	0	0	0
3.	Faisalabad	908	693	2,879	911	1,116	5,155	1,263	1,151	4,215
4.	Gujranwala	1	1	1	1	0	0	4	1	1
5.	Hyderabad	379	297	261	458	513	180	579	479	288
6.	Islamabad	102	72	189	81	75	230	62	151	438
7.	Karachi	5,538	8,666	16,465	9,395	15,030	22,110	84,788	38,179	127,933
8.	Lahore	1,521	1,962	3,604	1,576	1,448	4,651	1,834	2,967	2,376
9.	Multan	0	16	16	8	10	18	0	6	8
10.	Muzaffarabad	37	41	47	7	26	65	10	18	20
11.	N. Nazimabad	2,160	3,865	13,983	6,527	7,198	11,926	3,808	2,787	5,010
12.	Peshawar	237	389	520	87	107	370	82	143	301
13.	Quetta	59	78	87	33	47	44	55	42	63
14.	Rawalpindi	531	647	2,044	586	832	2,377	2,417	942	836
15.	Sialkot	252	233	131	238	361	198	30	67	67
16.	Sukkur	25	32	52	5	17	22	17	40	56
Total:		11,751	16,995	40,282	19,913	26,781	47,349	94,949	46,974	141,615

2.9 HR Capacity Building

To broaden the officers' knowhow about the best international practices on cash processing and to align currency operations with SBP's approved currency strategy, a number of officers from CMD were nominated to attend various local and international programs. These included: Cash Seminar arranged by Czech Central Bank, Cash Cycle Seminar hosted by The Cash Cycle Seminar (ICCOS) Asia in Bali, Indonesia and Cash Management study/visit program hosted by Central Banks of UAE, Sri Lanka and Malta. Moreover, a number of officers including the Chief Managers, attended the "Conference on Currency Management: Strategies for the Future", which was hosted by the Finance Department in collaboration with CMD.