Indian currency has been in circulation in a number of countries outside India. These countries have at one time or the other been either under British Rule or under British influence. Circulation of Indian currency in Burma and Pakistan has ceased now and no Indian currency is at present in circulation in these countries. Indian currency was in circulation in Tibet, but after the Chinese occupation of Tibet, it has been replaced by local currency. Most of the Indian currency in circulation in Tibet has come back into India with the Indian merchants and traders who fled away from Tibet. A portion of this currency has been brought back by the Nepalese traders and merchants to Nepal - a country where Indian currency is still in circulation. It is also suspected that the residue has been smuggled into the Chinese Embassy in India, for whose benefit it is being used.

Indian currency is still in circulation in the Gulf States of Kuwait, Bahrain, Qatar, the Trucial States and in parts of Muscat. Indian currency is also in
circulation in Nepal and Iraq - though both these States have switched over to their own national currencies.

It is not known as to when and under what circumstances Indian currencies could enter into these countries as legal tender money. According to the Reserve Bank of India, "The Indian Rupee (currency) has been serving as the traditional medium of exchange in the Gulf States of Kuwait, Bahrain, Qatar, the Trucial States and parts of Muscat, for a long time, and by custom, the Government of India and the Reserve Bank of India have been providing the currency for this circulation". ¹

There was no provision till May 1, 1959 in the Reserve Bank of India Act regulating the circulation of Indian currency outside India and the Government of India and the Reserve Bank were providing, by custom, the currency for circulation and also exchanging Indian currency notes, collected by banks operating in Gulf States, for Sterling. In 1959, a new Section 28 A was inserted in the Reserve Bank of India Act, which provided for the issue of special notes for circulation outside India to prevent misuse of Indian currency. The object of this new Section was to control the circulation of bank notes and the Government of India one rupee notes out of India. It was stated that such notes to be in circulation outside India should be of

Red Colour i.e., different in colour from the notes circulating in India. These special notes are not to be legal tender in India. All the Indian currencies circulating in the Persian Gulf States at the time of the promulgation of the Act should be replaced by these special notes.

The main purpose of the Reserve Bank of India, Amendment Act 1959 was to check the smuggling of gold and other goods. Gold and goods smuggled into India used to be sold in India and the Indian currency so obtained used to be smuggled out to the Gulf States where Indian currency was legal tender. According to the laws of these countries, any body who had Indian currency could convert it into pound Sterling without any discrimination. As such smugglers could convert the Indian currency so smuggled out into Sterling in these countries. These notes were transferred through various channels to banks in the Gulf Area who tendered them to the Reserve Bank for redemption into Sterling. Thus, in this process a substantial amount of our foreign exchange reserves was drained out.

There were no means to distinguish currency taken out of India by smuggling and that earned in the course of genuine trade transactions. The special notes were issued for the purpose of distinguishing the smuggled notes from the authorised ones.
The special notes are freely convertible by the Reserve Bank of India into Indian Rupees. They are also freely convertible into Sterling through the existing procedure, under which Gulf banks, can get Indian currencies converted into Sterling from the Reserve Bank of India.

At the initial stage, the existing Indian currencies were to be converted into special currencies. For this purpose, six week time from May 11, 1959 to June 21, 1959 was allowed. The Reserve Bank of India granted all facilities for the conversion of the existing notes into special ones. After the initial conversion was over, new special notes were issued only against Sterling.

The Reserve Bank of India which was entrusted with the conversion operation has not published any figures about the total amount of Indian currency so converted.

With effect from April 1, 1961, the Government of Kuwait replaced Indian currency with a local currency called Dinar. In terms of an Agreement arrived at between our Government and the Government of Kuwait for settlement of India's liability in regard to the Indian currency in circulation there, the Kuwait Government was required to retire the Indian currency within a period of 6 weeks from the commencement of the operation or within such further period as might be prescribed under the local
currency decree and tender the same at Reserve Bank at Bombay. The Indian currency so returned was to be paid for in sterling in eleven instalments. The Kuwait Government, therefore, by the end of June, 1961 returned Indian currency worth £34.2 crores and the money so returned was credited to the account of the Government of Kuwait by the Reserve Bank. The amount of £34.2 crores has since been transferred from the account of the Kuwait Government to the account of the Government of India, as this amount has been advanced to the Government of India by the Kuwait Government as a long term loan. The Government of India has paid on July 1, 1961, the first instalment of the loan amounting to £1.98 million.

In 1934 - 35, Iraq switched over from Indian currency to Iraqi Dinar and since then Iraqi Dinar which is equal to pound Sterling is legal tender in the country. Though Iraqi Dinar is legal tender in Iraq, Indian currency is also in circulation. According to the information available with the Indian Embassy in Iraq, there has been some appreciable fall in the amount of Indian currency circulating in Iraq since 1963, presumably as a result of the promulgation of the Gold Control Order in India and anti-gold smuggling operation in India.¹

¹ Letter No. 21(1) Com/63 dated January 22, 1963 from the Commercial secretariat Embassy of India, Bagdad addressed to this author.
Although no reliable data regarding Indian currency in circulation in Nepal is available, according to the latest Report of the Nepal Rashtra Bank (Central Bank of Nepal), it is roughly estimated to be Rs. 1,500 lakhs to Rs. 2,000 lakhs. It is the policy of the Government of Nepal to gradually replace the Indian currency by Nepalese currency. According to Nepal Rashtra Bank, "Central banking problem in Nepal at this stage of monetary and institutional development centres round the question of terminating the dual currency system pending which monetary control and the proper management of foreign exchange as also a sound and far reaching fiscal administration are extremely difficult".  

With the object of ending this dual currency system, since September 19, 1958, all the revenue books in the Terai are kept in terms of Nepalese currency at the rate of N. Rs. 150 = Indian Rupees 100 and this rate is applied in all official dealings. The sale of Indian currency at this rate is strictly limited to a few purposes. Nepal has distinctly low separate currency areas. Nepalese currency dominating in one and the Indian currency in the other. The decision of the Nepalese Government to accept Nepalese currency in the Indian Currency Areas of Terai has added to the prestige of the Nepalese currency.

The rate of exchange between the Indian and Nepalese currencies widely fluctuates within Nepal itself depending on the state of demand and supply of each currency. The rate of exchange of the Nepalese currency goes up at a time when the season to pay Government Land Revenue and other dues starts and there is thus an increase in the demand for N.C. because payment in the Government treasuries for such dues is accepted only in N.C.

The Nepal Rashtra Bank was asked by H.M.G. to advise about tackling the problem of fluctuating exchange rates between I.C. and N.C. and also about expanding the Nepalese currency area with the ultimate aim of achieving countrywide circulation of Nepalese currency only. The main recommendation of the Bank was that the official rate of conversion of the Nepalese currency into Indian currency be fixed at ₹1.60 N.C. to ₹1.00 Indian currency throughout the country. Accordingly the Government of Nepal declared N.C. fully convertible into Indian currency at the rate of ₹1.00 I.C.= ₹1.60 N.C. with effect from April 13, 1960. At the same time, Indian currency account maintained by the Government of Nepal was converted into N.C. All internal dues, except those under contracts and royalties, payable to the Government of Nepal, are now collected in N.C. and all internal disbursements of the Government of Nepal are made in that currency only.
In the beginning - the Nepal Rashtra Bank was established in 1955 - the Nepal Rashtra Bank quoted the exchange rate of U.S. dollar Sterling and Swiss franc in terms of Indian Rupees on the basis of the prevailing market rate in India. Since May 14, 1960, the Bank started quoting the rates of these currencies and from 1962, also those of Burmese Kyats and Japanese Yen directly in N.C. on the basis and with the range fixed by the Government of Nepal.

The Treaty of Trade and Transit between the Governments of India and Nepal came into force on November 1, 1960. Before this the foreign exchange earnings of Nepal were virtually pooled with those of India and Nepal had no separate foreign exchange account. India used to release foreign exchange to Nepal on her request. Since Nepal's requirements of overseas currencies at that time were only a fraction of what it used to earn, the arrangement benefited India. Nepal's contribution to the pool was more than her drawings. Nepal wanted to hold international currencies independently and also wanted to increase its stock of them. After the treaty referred to before, the management of Nepal's foreign exchange now rests with the Nepal Rashtra Bank and India has stopped supplying foreign exchange to Nepal. Since then Nepal has been receiving its visible and invisible income
independently and paying its foreign obligations from its own resources. Nepal has become a member of the I.M.F. and it is waiting for the opportunity to declare its par value. According to the Nepal Rashtra Bank, "Assessment of a proper basis for establishing the par value with the I.M.F. presupposes countrywide circulation of the Nepalese currency by replacing the Indian currency".  

So it may be stated that Rs.20 crores worth of Indian currency in Nepal will soon be displaced from its present position. Its effect on Indian economy may be either of the following — (i) Indian currency after it has been withdrawn from circulation will be converted by the Nepal Rashtra Bank into Sterling from the Reserve Bank of India. In that case we will loose foreign exchange to the extent of Rs.20 crores. In case the conversion into Sterling is not done all at once, and like Kuwait, this money is loaned to the Indian Government to be paid in Sterling in long term instalments, we will be incurring additional foreign debt to the extent of this amount. The payments of instalments in Sterling will be our recurring foreign exchange liability for some years; (ii) The Indian currency may gradually come back to India with the Indian and Nepalese traders, because movement of Indian

currency to and from Nepal is permissible. In that case also it would add to our existing currency in circulation in the country and add to the inflationary spiral in future.

After Kuwait and Nepal, now Bahrain has also entered into an agreement with the Government of India regarding the replacement of Indian currency there with the local currency known as "Bahrain Dinar". In Bahrain, the local currency has taken the place of Indian currency with effect from the 15th October, 1965. According to the terms of the agreement, one-third of the total liability or 20 lakhs, whichever is less, will be paid to Bahrain in pound Sterling before the 30th April, 1966 and the remaining will be paid in ten equal annual instalments.¹

It is quite evident that as these countries, where Indian currency is still in circulation, become politically more conscious, they will one after another demand replacement of Indian currency thereby the local currency of their own. Whenever such replacement takes place, India will have to discharge liability in this regard in pound Sterling or other foreign currencies or in gold.

¹ No reliable data is available regarding Indian currency in circulation outside the country and the amount of such currency has only to be guessed. Indian currency

¹ The Times of India dated October 13, 1965.
worth Rs. 43 crores in Kuwait and Rs. 20 crores in Nepal is in the process of replacement by the local currencies. The Indian currency circulating in foreign countries including that in Nepal and Kuwait may be estimated to be about Rs. 200 crores. This is not an insignificant amount. It is about 7 per cent of the total Indian currency. Repatriation of this currency to India and the discharge of liability on this account, which is quite likely in near future is bound to cause a serious drain of our foreign exchange resources. The country has to be prepared for this eventuality. As such this problem should be given a serious thought.

It is possible that as in the case of agreements with Kuwait and Bahrain, in other cases also we may be able to arrange that the liability may be paid by instalments. But in that case also, it will remain India's long term foreign exchange liability.

The Reserve Bank of India itself has stated that although at present no precise quantitative assessment can be made, if the countries, where Indian currency is in circulation, decide to replace it by their own currencies, such a step would reduce India's foreign exchange reserve.¹

¹ Reserve Bank of India - Economic Department's letter to this author - No. Ed DME 430/PF.1-64 dated October 21, 1964.
DECIMAL COINAGE

The introduction of the decimal coinage system in India was considered as early as in 1867. An Act to this effect was passed in 1871, but on account of various reasons the Act remained inoperative. In 1946, the Indian Science Congress issued a statement supporting decimal coinage system for India. In the same year, a bill was introduced for decimal coinage system in India. It was stated in the objects of the bill that, "modern trade and commerce demand speed and simplicity in the methods of computation, to achieve which there is nothing to compete with the decimal system". 1

The bill could not be passed because of the impending political changes and also because Gandhiji strongly opposed it.

In 1949, the Special Committee on weights and measures strongly pleaded for the decimal coinage system.

1. Reported in Indian Finance : Decimal Coinage, March 2, 1946.
It observed, "The Committee feel that it will be an advantage if the adoption of decimalised currency precedes the introduction of the metric system of weights and measures. The Committee, therefore, recommends that the decision of the Interim Government of India for the adoption of the decimalised currency should be implemented as early as possible". ¹

The opinion in favour of decimal coinage grew stronger since then and a Bill to amend the Indian coinage Act, 1936 was introduced in the Lok Sabha on May 7, 1955. Under the Bill, the Indian Rupee was to continue to be the basic legal tender money in India. But instead of the Rupee being divided into 16 annas, 64 pice or 192 pies, it was to be divided into 100 cents, the half rupee and the quarter rupee were to be equivalent to 50 cents and 25 cents respectively. The then existing two anna, one anna, half anna and pice coins were to have no counterparts in the new system, but it was proposed to issue coins of 10 cents, 5 cents, 2 cents and 1 cent to replace coins of the value below quarter rupee. The existing coins were allowed to circulate side by side for some time.

With effect from April 1, 1957, India adopted the decimal coinage system as a first step to the introduction of metric system in the country's coinage, weights and

measures. Instead of the Rupee being divided into 100 cents as proposed in the Coinage Bill of 1955, it was divided into 100 naya paisa. The word 'naya paisa' was thought to be more suitable for India because Indians are familiar with the word 'paisa'. The word 'naya' has now been dropped. To start with new coins of the denominations of 1 naya paisa, 5 naya paisa and 10 naya paisa were put into circulation from April 1, 1957. Coins of higher denominations, namely 25 and 50 naya paisa and the new rupee (100 naya paisa) were to be introduced at a subsequent date. It was decided that the process of changeover to decimal coinage should take three years. During the period, the existing coins were also to remain in circulation, but they were to be gradually withdrawn. Old coins demonetised in terms of the various notifications issued since July, 1958 up to and March, 1961 included — (i) all nickel or brass two anna coins, all halfpice coins and all pie coins which ceased to be legal tender from January 1, 1959 in terms of the notification of July 18, 1958; (ii) all nickel-brass one anna and half anna coins which ceased to be legal tender from January 1, 1960 in terms of the notification of June 15, 1959, and (iii) all cupro-nickel two anna and half anna coins which ceased to be legal tender with effect from October 1, 1960 as per notification of March 2, 1960. These demonetised coins were to be accepted for certain prescribed period in the Reserve Bank, Government treasuries and Post and Telegraph Offices.
The Government of India have demonetized the cupronickel one anna, pice and two pice coins with effect from January 1, 1964. They were, however, accepted at the Offices of the Reserve Bank of India and Government treasuries.

During 1963 - 64, 1,662 million pieces of decimal coins valued at Rs. 9.54 crores were minted as against 1,491 pieces worth Rs. 10.6 crores in 1962 - 63. The total mintage of decimal coins since 1956 - 57 amounted to 8,975 pieces valued at Rs. 48 crores. 1

The decimal coinage system has worked for a period of about eight years now. In the beginning when the old coins were also in circulation, many difficulties including that of the rate of conversion of old coins into new ones came in the way of the system. It was also difficult for the villagers to transact business in terms of the new coins. But almost all the difficulties are over now. The people are now accustomed to keep accounts in Rupees and Paisas and the calculating machines based on the old system have now been replaced by machines based on the new system.

The decimal coinage system has many advantages. First of all it has simplified calculation. Secondly, the

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The introduction of decimal coinage system has brought India in line with the group of 105 countries who follow the decimal system. Even in U.K. — a country which does not follow the system — a committee was set up in 1962 to advise on the most convenient and practical form which decimal coinage might take and on the timing and phasing of the change over; it was also asked to estimate its probable cost to the economy.¹ Thirdly, decimal coinage system has made it possible for the country to introduce the metric system of weights and measures. The system has made calculations easy and simple. The system is an important landmark in the history of current reforms in the country.