BANK OF CANADA
BANQUE DU CANADA

B A C K G R O U N D E R S

Seigniorage

Seigniorage is the revenue earned from the issue of money. Historically, this revenue accrued to the “seigneur” or ruler.

In Canada today, seigniorage can be calculated as the difference between the interest the Bank of Canada earns on a portfolio of Government of Canada securities—in which it invests the total value of all bank notes in circulation—and the cost of issuing, distributing, and replacing those notes.

Example

Here is a simplified example of how this works, using a $20 note, which is the most commonly used denomination. If the Bank of Canada invests the proceeds from issuing the $20 note in a government security generating 3 per cent interest, this note will yield $0.60 per year of interest revenue.

The overall production cost for the note is about 9 cents. Given an average life of three years for a $20 note, the production cost of the note averages out to 3 cents per year.

If average distribution expenses of about 2 cents per year are added to this, the total average annual cost of putting this note into circulation and replacing it when it is worn is approximately 5 cents. Thus, the Bank of Canada earns an annual net revenue of about 55 cents for each $20 note in circulation.

Of course the longer-lasting *Polymer series* bank notes being issued between 2011 and 2013 will lower the average cost of notes in circulation, and so increase the net seigniorage, but how seigniorage is calculated will not change.

Collection of seigniorage

Unlike the seigniorage for coins, which is generated at the time of their sale by the Royal Canadian Mint, seigniorage on bank notes is collected over a period of years, as the Bank’s portfolio of government securities generates interest revenue.

How is seigniorage used?

There are over $60 billion in bank notes oustanding. Seigniorage varies according to prevailing interest rates and the value of notes outstanding, but has ranged from $1.4 to $2.0 billion annually over recent years. After deducting the Bank’s general operating expenses of about $350 million (of which spending on bank notes is approximately 40 per cent), the remainder is paid to the Receiver General for Canada.

March 2012