



BANK OF CANADA  
BANQUE DU CANADA



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

## Seigniorage

Seigniorage is the difference between the interest the Bank of Canada earns on a portfolio of Government of Canada securities—which is roughly equal in value to 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 5 per cent interest, this note will indirectly yield \$1 per year of interest revenue. The overall production cost for the note is 9 cents. Given an average life of three years for a \$20 note, the annual production cost of the note averages out to 3 cents.

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 clears an annual net revenue of about 95 cents for each \$20 note in circulation.

### 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 matures.

### Use

In recent years, just over \$50 billion in notes has been in circulation at any given time, although the amount can fluctuate, depending on demand. The Bank's net interest revenue has varied around \$2.0 billion (\$1.7 billion in 2009) per year. A portion of this revenue—\$366 million in 2009—is used to finance the Bank's general operating expenses (of which spending for the currency function represented 37 per cent, or \$137 million, in 2009). The remainder is paid to the Receiver General for Canada.

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We'd like to hear from you. Please send comments about this backgrounder to [Initiatives@bankofcanada.ca](mailto:Initiatives@bankofcanada.ca)

