

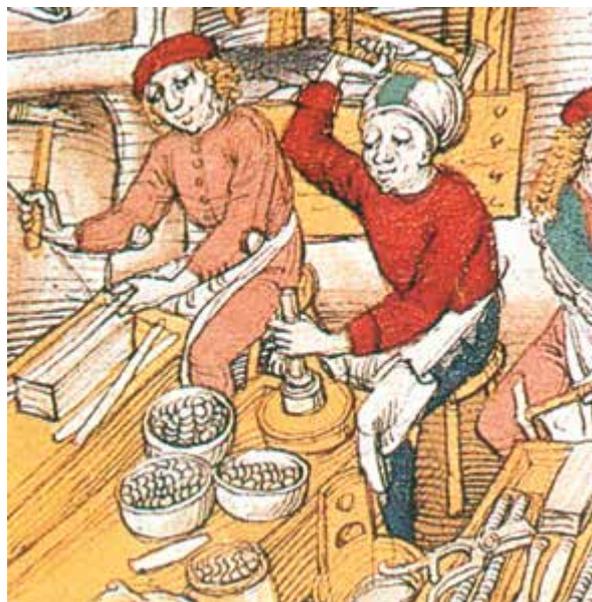
Seigniorage

This is the rather feudal word still used nowadays to refer to the income of central banks, because that income is derived from the right to issue money, once the prerogative of mediaeval lords.

Contrary to what is sometimes thought, the central banks do not obtain their income from the difference between the face value of the banknotes and the cost of printing them. If that were so, they would be extremely wealthy! The income of the NBB, and that of the other national central banks and the ECB, is derived essentially from their issuing activity, over which their respective States have granted them a monopoly.

In olden days, banknotes were receipts issued in exchange for a deposit of precious metal. That is no longer the case nowadays. But even though they have become abstract monetary tokens, they are still recorded as a central bank debt, on the liabilities side of the balance sheet. These liabilities are unremunerated (banknotes do not bear interest); conversely, on the assets side of the central bank's balance sheet, we find – as the counterpart to the banknotes – loans granted to commercial banks and the official foreign exchange reserves which do bear interest. Seigniorage is the word used to refer to the proceeds of these interest-bearing assets.

That income belongs to the community because it results from the banknote issuance monopoly. A substantial part of that income therefore reverts to the State, and another part goes to the central bank, to ensure that it remains financially sound, and to enable it to cover its operating expenses



The word seigniorage dates back to the Middle Ages. As then, it represents the amount which the currency issuer is allowed to keep in order to carry out its tasks.

and perform tasks in the public interest, such as conducting monetary policy.

Since the establishment of the European System of Central Banks (ESCB) in 1999, each national central bank has recorded under its liabilities the equivalent of its respective share in the banknotes issued by the Eurosystem. The ECB and each national central bank, including the National Bank of Belgium, thus receive part of the Eurosystem's seigniorage. It is allocated in accordance with their share in the ECB's capital, a formula which takes account of the population and GDP figures of the various Member States. In 2004, the NBB's share in the seigniorage income came to 3.55%. After new Member States joined the Eurosystem, Belgium's share was revised downwards to 2.42% since 2009.

For more information:

- Information sheet: Lender of last resort, n. 23