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## FICHE 5

### SEIGNIORAGE

#### 1. CONTEXT

Seigniorage is the central bank/government revenue accruing from the issuance of money (currency and central bank deposits). Inside the Euro Area (EA) this "monetary income" is currently collected by the European Central Bank (ECB) and distributed among central banks of the EA Member States according to the ECB capital key (Article 32 ESCB Statute). It becomes part of central banks' profits, whose use is regulated at Member State level. The largest share of these profits is then paid out to national treasuries as fiscal revenue, after deduction of operational and administrative costs. Seigniorage has been analysed in the 2011 Commission report on the operation of the own resources system, but has not been the object of an actual legislative proposal.

#### 2. ASSESSMENT IN RELATION WITH THE CRITERIA IDENTIFIED BY THE GROUP

**1. Equity/Fairness:** countries outside the Eurozone would presumably have to contribute to this new own resource through a contribution based on their share in GNI. As an alternative, the share of the Eurozone seigniorage/monetary income in the GNI of Euro-members would be calculated. The non-Euro-members would have to contribute an equal share of their GNI, but in order to determine the national contributions within this group of countries, the same distribution key as the ECB capital key would be applied (equal weight of GNI and population).

**2. Efficiency:** the introduction of seigniorage as an own resource could eliminate discrepancies between Member States levels of deposits inside the EA.

**3. Sufficiency and Stability:** revenue possibly accruing from seigniorage is estimated to be around EUR 10 billion (around 6 to 7% of the total EU Budget). It could only play a role as an own resource combined with others. As regards stability, it could be subject to the national central banks' fluctuating policy as regards the management of their reserve (the income/profit from seigniorage can easily be modulated by adjusting their reserves). Questions can therefore be raised about the possible impact of such 'taxation' on the behaviour of national central banks.

**4. Transparency and Simplicity:** administration of such tax would be simple since this revenue is already collected. Collecting it as an own resource wouldn't entail any additional burden. However, considering the own resources system as a whole, it could only apply to the Member States of the Euro area. Introducing supplementary GNI-contributions for non-Euro members would therefore increase the complexity of the system.

**5. Democratic accountability and budgetary discipline:** no particular role on enhanced accountability or budgetary discipline.

**6. Focus on European added value and constrain narrow self-interest:** an OR based on ECB seigniorage would have a direct link to the monetary union, but would require adjustments in relation to non-Euro members.

**7. Subsidiarity principle and fiscal sovereignty of member states:** the subsidiarity principle would logically suggest that central banks profits are allocated at the federal level. There is an economic rationale to transform the monetary income from seigniorage into an own resource, although this would be relevant for the Euro area but more difficult to justify for the EU as a whole.

**8. Limit political transactions costs:** as Treaty change would be needed, the political transaction costs are high for such an OR. Regarding Euro Area Member States, in the context of the monetary union, these revenues cannot legitimately be seen as belonging to Member States individually. Outside the EA, it clearly constitutes fiscal revenue for the national budgets.

### **3. WEAKNESSES OF THE SEIGNIORAGE**

The highest seigniorage revenues are in those Member States with highest inflation rates, which frequently are the poorest ones. Consequently, the usage of such revenues to finance the EU Budget could have regressive effects. Due to structural differences between seigniorage distribution and GNI shares, it could also create a similar effect to the "Rotterdam effect" for custom duties for Member States raising bigger revenue.

As not all Member States belong to the EA and seigniorage is an EA resource, a fair treatment of all EU Member States would probably require increased complexity in the system, with a differentiated treatment of EA and non-EA members.

Seigniorage revenues would have a low visibility for the taxpayers.

### **4. KNOWN POSITIONS OF STAKEHOLDERS (MS OF THE EA, ECB, OTHER)**

It should be recalled that the European Central Bank and national central banks are traditionally firmly opposed to such proposals.

### **5. ESTIMATE OF REVENUE FOR THE EU BUDGET**

Currently, revenue possibly accruing from seigniorage is estimated to be around EUR 10 billion (around 6% of the total EU Budget).