

Box 4 Understanding seigniorage compensation in the Common Monetary Area

Seigniorage compensation refers to payments from a country that issues a dominant currency to other countries that use that currency as legal tender. These payments are intended to offset the seigniorage revenue those countries forgo by issuing less of their own national currency. Within the Common Monetary Area (CMA),¹ the South African rand circulates alongside the domestic currencies of Eswatini, Lesotho and Namibia (ELN),² which reduces the demand for domestic currency in these countries and consequently lowers the seigniorage income that would ordinarily accrue to their central banks. This box examines seigniorage³ compensation within the CMA, outlines the underlying economic reasons for these payments, and describes the role of the Multilateral Monetary Agreement⁴ (MMA) in providing for compensatory payments from South Africa to the other CMA member countries.

In accordance with the provisions of the MMA, the calculation of the compensation payment is dependent on two main variables, namely the stock of money and the long-term bond yield. Because the stock of South African rand circulating in the CMA countries is not directly observable, the participating authorities estimate it jointly using an agreed estimation methodology. Under Article 8 of the MMA, base amounts of rand notes and coin in circulation in Lesotho and Eswatini were established in 1974 using indicators such as income

- 1 The CMA is a formal monetary arrangement between South Africa, Lesotho, Namibia and Eswatini that provides for close monetary cooperation and a shared currency framework, anchored in the South African rand. The CMA is a quasi-currency union governed legally and institutionally by the Multilateral Monetary Agreement (MMA), which came into effect in 1992 and was revised in 2021.
- 2 ELN refers collectively to Eswatini, Lesotho and Namibia – the CMA member states in which the South African rand circulates as legal tender alongside domestic currencies.
- 3 Seigniorage is narrowly defined as the difference between the face value of banknotes and coin as well as the cost of producing and issuing them. Historically, the net income from seigniorage depends on investing the proceeds of the notes and coin issuance in certain assets, such as government bonds, which earn a return.
- 4 The MMA aims to promote monetary stability and economic integration within the CMA by allowing the South African rand to circulate freely as legal tender in the smaller member states alongside their domestic currencies, which are pegged to the rand at par.

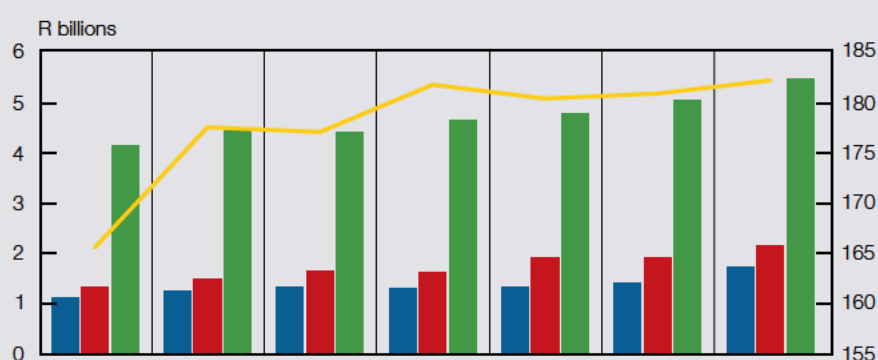


levels and ratios of currency in circulation relative to income in broadly comparable countries that issued their own national currencies. A similar base was established when Namibia joined the CMA in 1992.

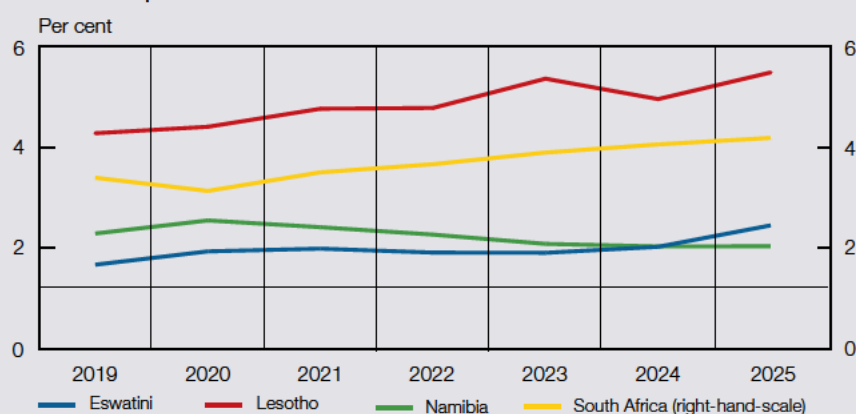
Since the base amounts of CMA countries' notes and coin were established, annual estimates of the total currency in circulation have been derived by assuming that growth in notes and coin in these countries is one-fifth higher than the growth of notes and coin circulating in South Africa, as outlined in Article 8 of the MMA. For example, a 10% increase in notes and coin in circulation in South Africa translates to a 12% increase in the estimated currency in circulation in the CMA countries. Conversely, a 10% decrease in notes and coin in circulation in South Africa translates to a decrease of 8% in notes and coin in the CMA countries.

The stock of South African rands in the CMA countries is estimated by subtracting the amount of domestic currency issued by each ELN central bank from the estimated total currency in circulation. The estimated stock of notes and coin circulating in the ELN countries has trended upwards over time, in line with the amount circulating in South Africa. This co-movement suggests that currency demand has evolved in broadly the same way across the region, reflecting growth in nominal gross domestic product and the need for currency to support transactions in South Africa and the wider CMA.

Notes and coin in circulation in CMA countries



Notes and coin in circulation as a percentage of nominal gross domestic product



Source: SARB

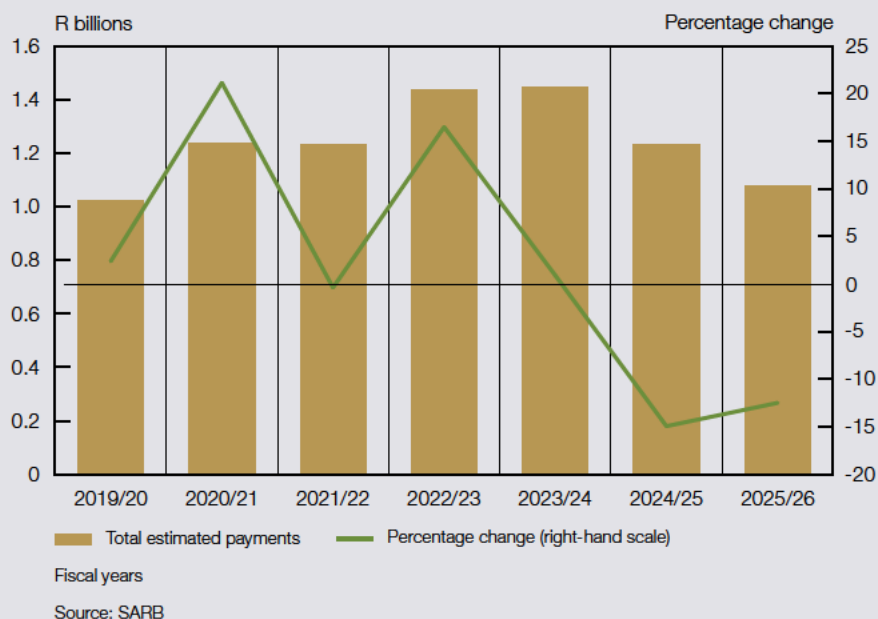
The MMA provides for annual compensation payments from the South African government to the other CMA countries. A key objective of the agreement is to ensure that the benefits of participation in the CMA are shared equitably among member states. In addition to changes in notes and coin in circulation, the calculation of CMA payments⁵ also considers movements in the South African long-term government bond yield.⁶ The agreement stipulates that South Africa pay a fixed proportion of two-thirds of the bond yield. South Africa also has separate bilateral agreements with each ELN country as part of the MMA, which are unique and tailored to each country. Major differences include the treatment of money supply growth, with these differences catered for in the MMA.

⁵ CMA compensation payments represent an intergovernmental transfer mechanism intended to offset the loss of such revenue within the CMA framework.

⁶ The yield on 10-year South African government bonds is used in the calculation.

The estimated compensation payments made by South Africa to the other CMA member countries increased steadily from around R1.0 billion in fiscal 2019/20 to an all-time high of R1.4 billion in fiscal 2023/24, alongside an increase in the South African government bond yield, before decreasing to R1.1 billion in fiscal 2025/26. The South African rand remains the dominant currency in circulation in the ELN countries. Between the 2019/20 and 2025/26 fiscal years, the rand accounted for an annual average of over 70% of the total currency circulating in ELN. On an annual basis, growth in CMA payments slowed notably from 21.1% in fiscal 2020/21 to -12.5% in fiscal 2025/26, in line with the moderating growth in notes and coin in circulation in South Africa as well as the decline in government bond yields. Growth in South African notes and coin in circulation moderated following the COVID-19 pandemic, from around 7.5% in fiscal 2020/21 to 1.1% in fiscal 2025/26.

Total estimated common monetary area compensation payments by South Africa



The sharp rise in bond yields during 2022 and 2023 amid rising inflation, increased geopolitical tensions, tighter financial conditions and heightened fiscal risk perceptions translated into higher CMA compensation payments, even as growth in the stock of South African notes and coin slowed. The recent decline in compensation payments to the other CMA countries reflected the moderation in the growth of South African notes and coin in circulation as well as the subsequent decline in bond yields.

Government bond yield and the exchange rate

