

corona crisis

National emergency euros

to prevent the corona crisis turning into financial crisis

The corona crisis causes a sharp increase of debt. As interest rates rise debt burdens become untenable. A health crisis threatens to become an overall financial crisis. The ECB can prevent this by using its exclusive power to authorise the issuance of emergency euros.

The European System of Central Banks (ESCB) can contain the corona crisis by using its legitimate powers. To this end, the ECB should use its exclusive power to authorize the issuance of euro notes by the National Central Banks (NCBs). These notes should have ultra-high value, for example 1 billion euro. In the UK such notes were issued to back the circulation of pounds in Scotland and Northern Ireland. They were called 'giants' and '[titans](#)'.

How will this work in the Euro area?

- The ECB authorizes the issuance of ultra-high value euro notes ('Titans') by NCBs. Article 128 TFEU attributes this power to the ECB and the NCBs.

Article 128 paragraph 1 TFEU: "The European Central Bank shall have the exclusive right to authorise the issue of euro banknotes within the Union. The European Central Bank and the national central banks may issue such notes. (...)"

- The NCB grants those Titans to its Member State without any obligation to pay them back. Article 123 TFEU prohibits ESCB-credit to Member States ('monetary financing'). It does not prohibit a necessary gift.¹

Article 123 paragraph 1 TFEU (prohibition of monetary financing): Overdraft facilities or any other type of credit facility with the European Central Bank or with the central banks of the Member States (hereinafter referred to as 'national central banks') in favour of Union institutions, bodies, offices or agencies, central governments, regional, local or other public authorities, other bodies governed by public law, or public undertakings of Member States shall be prohibited, as shall the purchase directly from them by the European Central Bank or national central banks of debt instruments.

- The Member State deposits the Titans at banks that operate within its territory. It receives bank balances in return, which it can use to face the crisis.
- The Titans can't circulate. They are stored by the NCB for the rightful owner. The NCB records who owns the note. The first owner is the Member State which received it as a grant. After it is deposited it is registered as the property of the receiving bank.

- Titans are interest free reserves which banks can use to pay each other. Banks can also transfer ownership to the NCB in return for interest bearing balances on their NCB-account.
- If ownership of a Titan returns to the NCB, the NCB records that Titan as an asset on its balance sheet. It thus obtains the Titan as ammunition for the next crisis. To this end Titans must be exempted from article 3 paragraph 3 [ECB/2010/29](#).

Article 3 paragraph 3 ECB/2010/29: “NCBs shall treat all euro banknotes accepted by them as liabilities and process them in an identical manner.”

By using its legitimate powers, the ESCB can come to the rescue. It should not put the euro at risk by increasing debt. It should not practice politics by pushing Member States in risk and debt-sharing arrangements. It should, however, authorise the issuance of euros that are clearly needed at this time. Later on the increased circulation can be brought under control by introducing [personal safe accounts](#) and [demonetizing debt](#). This way, the corona pandemic will make Europe and the euro stronger than ever.

Edgar Wortmann – March 22, 2020 (revised version March 24, 2020).

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¹ Some argue that handing out euros for free is also prohibited. After all the Court of Justice stated in ‘Weiss’ in relation to article 123 TFEU: *“It follows that that provision prohibits all financial assistance from the ESCB to a Member State (...)”*. However, this non-essential statement of the Court of Justice is false. Article 123 TFEU prohibits: a. extension of credit and b. direct purchase of debt instruments. It does not prohibit a gift for free.

Monetary policy is defined and implemented by the ESCB (article 127 TFEU). By issuing euros to prevent financial crises it exerts its legal powers. If the question regarding compliance with article 123 TFEU is raised before the Court of Justice, the Court can only acknowledge the legal powers of the ESCB as set out in the Treaty.