corona crisis

Emergency Euro Coins

Funding EU Member States without increasing public debt

EU Member States can react to the corona crisis by using their legitimate powers with exceptional method and scale without increasing public debt. The member states should use their exclusive power to issue ultra-high value, for example 1 billion euro, coins with authorization of the European Central Bank (ECB). This would give extra spending possibilities for member states during the COVID-19 crisis without increases in public debt and risk of future austerity measures.

Coining money

In the US, a proposal of minting two "trillion dollar coins" has brought on a vivid discussion about the possibility to allow the government to spend more. The euro area has the same legal possibilities.

The Member States have the right to coin euros (Treaty on the Functioning of the European Union, onwards TFEU, article 128 paragraph 2).[1] By exerting that right, Member States acquire the liquidity necessary to cope with the crisis without aggravating the situation by a sharp increase in public and private debt. This enables them to avoid a depression. Coined money embodies the general unit of value (the euro). Unlike bank money, it is 'debt-free' as it does not represent a monetary claim on the issuing entity. To issue euro coins, member states need approval from the ECB.

After coining these Emergency Euros, the Member State deposits them at one or more banks active in its country, receiving bank balances in return. To these banks, the Emergency Coins are safe and interest free assets, which they can use to pay each other. They can deposit these safe assets at their National Central Bank (NCB). This provides them with interest bearing central bank balances for use in the interbank settlement system. The NCB records the coins it receives from the banks as assets valued to their nominal amount.

[1] Article 128 paragraph 2 TFEU: "Member States may issue euro coins subject to approval by the European Central Bank of the volume of the issue. The Council, on a proposal from the Commission and after consulting the European Parliament and the European Central Bank, may adopt measures to harmonise the denominations and technical specifications of all coins intended for circulation to the extent necessary to permit their smooth circulation within the Union."

Emergency Notes

Use of Emergency Euro Coins is similar to the use of Emergency Euro Notes. The main difference is that the coins are issued by the Member States whereas the notes are issued by the NCBs. Emergency euro *notes* require an exemption from the ECB-policy to treat returning banknotes as liabilities.[2] This policy does not apply for coins.

Crediting a Member State

For coins other rules apply, most notably article 6 EC/3603/93.[3] This article limits the amount of coins an NCB can credit to the public sector. This presupposes that an NCB credits a Member State for euro coins it receives from that Member State. In the case of Emergency Coins, the Member State deposits those coins at a commercial bank, which can in turn deposit them at the central bank. In that case the public sector is not credited by the NCB; the banking sector is. Depositing Emergency Coins at a commercial bank provides the Member State with bank balances and access to payment services which enables it to use the newly created money in the economy.

ECB policy

In its response to the corona crisis, the ECB has not made any move in the direction of monetary financing. It provides liquidity to financiers instead, helping them to exploit the crisis and shift the risks to the public sector.

Normally, Member States are not allowed to influence the ECB (article 130 TFEU).[4] By using its power to coin euros, however, a Member State can engage the ECB nonetheless. Article

[2] This policy is enshrined in 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."

[3] Article 6 EC/3603/93: "The holding by the European Central Bank or the national central banks of coins issued by the public sector and credited to the public sector shall not be regarded as a credit facility within the meaning of Article 104 of the Treaty where the amount of these assets remains at less than 10% of the coins in circulation."

[4] Article 130 paragraph 1 TFEU: "When exercising the powers and carrying out the tasks and duties conferred upon them by the Treaties and the Statute of the ESCB and of the ECB, neither the European Central Bank, nor a national central bank, nor any member of their decision-making bodies shall seek or take instructions from Union institutions, bodies, offices or agencies, from any government of a Member State or from any other body. The Union institutions, bodies, offices or agencies and the governments of the Member States undertake to respect this principle and not to seek to influence the members of the decision-making bodies of the European Central Bank or of the national central banks in the performance of their tasks."

128 TFEU subjects the volume of coinage by Member States to approval by the ECB.[5] It is thus mandatory for any Member State aspiring to issue Emergency Coins to raise the issue with the ECB. Emergency Coins thus enables each Member State to force the ECB to publicly declare its position on monetary financing.

Valtteri Aaltonen & Edgar Wortmann – April 15, 2020

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[5] Article 128 paragraph 2 TFEU: "Member States may issue euro coins subject to approval by the European Central Bank of the volume of the issue. The Council, on a proposal from the Commission and after consulting the European Parliament and the European Central Bank, may adopt measures to harmonise the denominations and technical specifications of all coins intended for circulation to the extent necessary to permit their smooth circulation within the Union."