

Summary

In the coming months before the summer, the European Parliament's Economic Committee is expected to vote on whether and how many public digital euros citizens and businesses can have, in addition to the current 'bank money'. Against the background of current geopolitical developments, the subsequent increase in defence spending and the coming energy crisis, the costly energy transition required and the proposed strengthening of European competitiveness (Draghi), this document calls for the full (100% public) implementation of the digital euro as soon as possible.

Europe cannot afford another financial crisis. But at the same time, the financial system is still 'naturally' unstable, which means that it is constantly moving towards the next crisis. At the same time, the ECB's mandate has proven insufficient to maintain stability, in particular the objective of price stability (including 2% inflation). The instability of the system is now further increasing due to the emergence of new technologies such as crypto-currencies and AI, and in particular the recent proposal by nine European banks to introduce a European *stablecoin*. In the next crisis, the costs of astronomical private risk will once again be passed on to the public taxpayer.

Because the government is forbidden in the current system to create the money needed for the functioning of the economy at 2% inflation, the ECB cannot stabilize the naturally unstable financial system and the taxpayer misses out on huge amounts of money. Model calculations show that, if this ban (Maastricht Treaty 1992) were to be lifted, the system would become stable by nature and the European government(s) would be able to spend around €500 billion annually on common goals, without incurring any debt. In addition, taxpayers would be saved an additional amount of around €100 billion a year by outdated interest payments to private banks in the aftermath of the 2008 crisis. The current system is therefore strongly at odds with the general interest and democracy.

It is therefore now very urgent to introduce the 'digital euro' (CBDC) for 100% as soon as possible. This comes down to the dissolution of public and private roles and responsibilities. This explicitly decouples a public monetary system from a fully private financial market. This has the following advantages:

- More financial stability and services, which allows for more economic stability, which in turn leads to more political stability and thus a reduction in social dissatisfaction and populism.
- Much less chance of financial crises (with the associated astronomical public costs) because new money is no longer created by private banks for profit, but by the ECB for (public) stability reasons; public taxpayers no longer have to bail out banks; private risks that are taken (shadow banks, crypto currencies, etc.) are fully borne by the private markets.
- Structurally lower taxes for European citizens (around €500 billion per year; $\approx 3\%$ of GDP, $> 5\%$ public budget).
- More directional capacity of the government(s), as the new money can be spent on common European projects and/or on sectors that are seen as more relevant, such as defence spending and/or the Draghi proposal.
- An easy transition to the new roles and responsibilities, by temporarily compensating for the changing balance sheets of private banks with loans from central banks.

Explanation

The financial crisis of 2008

According to Adair Turner, then head of the UK's financial regulator, "the 2008 financial crisis was caused by our failure to curb the creation of private credit and private money." Because of this creation of private money, the financial system is 'naturally' unstable. In this case, 'money' in the form of 'euros' is created almost exclusively by private banks when granting loans ('bank money'). This is not about 'real' public money (coins, banknotes), which can only be created by the Central Bank, but about 'claims' on that real public money. More than 95% of the money in circulation in the euro area and held in bank accounts there consists of such claims. At a time when the economy is already growing and house prices are already rising, (too) many of these claims (as 'euros') are put into circulation by providing loans, causing prices to rise even further. When things go badly, the creation of private money comes to a halt. This means that the up and down cyclical movements become stronger and stronger (procyclical) and the system is therefore 'naturally' unstable.¹ As a result, the system is always on the way to the next crisis.

The astronomical sums used to bail out private banks in 2008 were passed on to taxpayers, leading to a period of austerity and economic stagnation. According to Martin Wolf, chief economist of the Financial Times, this was a major cause of the strong shift to right-wing populist parties that began immediately after 2008². Follow the Money journalist Bollen gives in his recent book; *Enough money, but not for you*³ provides a complete and transparent overview of the worrying developments in the financial system in recent decades.

The flawed European financial system

The European Central Bank (ECB) itself does not have the right tools to stabilise the system and fulfil its formal task of price stability (with a target inflation rate of 2%). An important point in this is the Maastricht Treaty of 1992, in which the ECB, and therefore the European government, is prohibited from creating money. This right will henceforth be reserved exclusively for private banks.

- As a result, during the economic recession after the 2008 crisis, the ECB was not allowed to put much-needed money into circulation to support the economy, but private banks first had to buy government bonds, which were then sold on to the ECB (Quantitative Easing; QE Asset Purchase Program, APP). The same was true for the later Pandemic Emergency Purchase Program (PEPP) to bridge the COVID crisis of 2020. Because the large amount of money put into circulation in these programmes (about 4000 billion euros) remained in the financial sector, stock and real estate prices rose, too little money initially ended up in the real economy and inflation initially remained far too low.
- Later, inflation became (much) too high again. Apart from the slowness with which the money flow, indirectly created by the ECB, reached the real economy, the end of the COVID crisis and the energy crisis in Ukraine played a role in this. To bring inflation back to its target of 2%, the policy rate was raised from around 2% to around 4% in the 2023-2025 period. This, in turn, caused another problem:
- After the QE program, the ECB, and thus the European taxpayer, still pays huge amounts of interest annually to European private banks and their shareholders. It concerns the interest on the thousands of billions of euros that the ECB itself had to put into the reserves of the private banks at the ECB to make the purchase program possible. For years, the policy rate, which was raised to 4%, amounted to €140 billion per year (2024), comparable to the total EU budget of €170 billion per year. From 2026 it

¹ Minsky, H.P (1982) *The Financial Instability Hypothesis: Capitalist processes and the Behavior of the Economy*. Hyman P Minsky Archive. Paper 282. p 34.

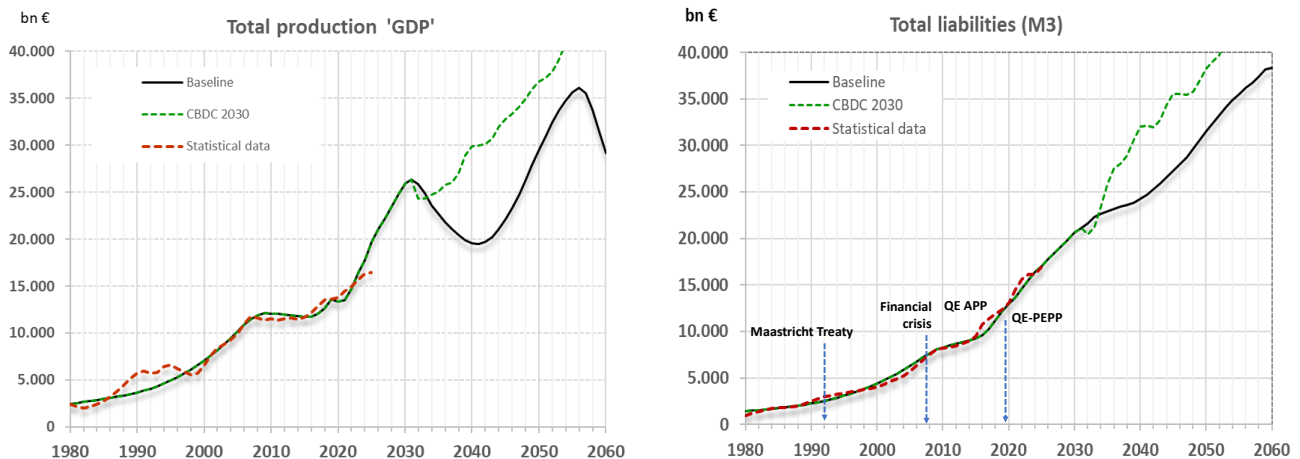
² Wolf, M. (2023) *The Crisis of Democratic Capitalism*. Penguin, Random House, UK. P 108.

³ Bollen, J. (2025) *Enough money, but not for you*. Managementboek.nl.

will still be an amount of 50 billion € per year, comparable to the war support to Ukraine (45 billion €/year). As early as early 2025, a group of financial economists and MEPs opposed these outdated interest payments.⁴

The ECB therefore does not have the right tools to fulfil its mandate of price stability (with 2% inflation). The instruments are far too indirect, therefore work too slowly and decades later still lead to huge, outdated interest payments to banks, which have to be paid by European taxpayers. The ECB can therefore not succeed in stabilizing the inherently unstable financial system in this way.

This 'naturally' instability of the current system and its negative consequences for economic development are illustrated by the figures below. On the basis of a system-dynamic model⁵, the actual financial-economic development, as represented by statistical data⁶ (red dotted lines), has been reconstructed (black lines drawn). In this way, the underlying mechanisms can be understood, the effectiveness of the policy can be assessed and a responsible expectation of future development can be given.



Because the creation of the money needed to achieve a constant price inflation of 2% since 1992 (Maastricht Treaty) is reserved for private banks and these banks create the money at the most profitable moment when the prices of houses and other assets are already rising, the fluctuations in the system are amplified and the system becomes 'pro-cyclical' and thus unstable. As indicated in the figure (GDP), the system is always on its way to the next crisis. The 2008 crisis can be understood in this way, and since the system has not changed substantially since then, such crises will continue to occur in the future. In the

⁴ Positive Money (2024) Open letter to the Governing Council of the European Central Bank; scientists and MEPs; https://www.positivemoney.eu/wp-content/uploads/2024/01/Openletter_ECB_Banksprofits.pdf

⁵ Egmond, N.D. van and B.J.M. de Vries (2024) Reforming the euro area financial system: A systemic dynamic approach – International Review of Financial Analysis 93 103192.

<https://www.sciencedirect.com/science/article/pii/S1057521924001248>

[Creating public money is necessary for a stable economy - ESB](https://esb.nu/publicke-geldschepping-is-nodig-voor-een-stabiele-economie/)

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The model simulates a number of important variables of the financial and economic system for a production, a service and a public sector, in combination with four categories of consumers. It combines the dynamic, unbalanced model of economic development with an inventory flow representation of the financial sector in the form of a stylized bank balance sheet with assets and liabilities for the banking system.

⁶ Trading Economics (2024) Indicators. Datasets on <https://tradingeconomics.com/>

development shown, which includes the ECB policy mentioned above, but in which surprises such as an AI crisis or a subsequent energy or commodity crisis cannot be factored in, the next crisis (according to the model) is expected around 2030 by rough approximation.

The reconstruction of the actual development based on the model shows that in the period 1992-2026, about €15,000 billion in new money (M3) was created and put into circulation in the eurozone, which amounts to 6% to 7% per year. This net amount also includes loans already repaid. With a net size of the ECB QE programme of about €4000 billion, about €11,000 billion has been put into circulation by private banks. Even immediately after the 2008 crisis, the amount of money continues to increase, suggesting that the government(s)'s bailout of the banks was partly based on loans, and thus simultaneous money creation by, from other private banks.

The astronomical amounts of newly created money do not end up in the productive economy to a large extent. As previously demonstrated by Bezemer,⁷ most of the money created goes to non-productive mortgages. Because house prices are strongly determined by the amount of money that can be borrowed, house prices in combination with interest rate cuts become⁸ unnecessarily high (in the same market situation). In this way, the creation of private money has the opposite effect and makes only a limited contribution to 'facilitating the real economy'.

The model calculations (black lines) confirm that the creation of private money is a decisive factor in the financial and economic system. A second confirmation of this at the micro level was given by Werner, who described the process of money creation within one private bank.⁹

Lessons not learned

Nothing has changed substantially since 2008. Because the risks are still as great as they were then and the system is still 'naturally' unstable (pro-cyclical), reforming the financial system has the highest priority. All the more so because the banking sector is now pushing for the abolition of the bank tax, the relaxation of the bonus ceiling, the reduction of bank buffers and (therefore) an increase in the permitted debt ratio. At the same time, it advocates the formation of a banking union and encourages mergers with even larger banks to compete with the US and China. In the same vein, the packaging of loans (securitisation) will be allowed again. The comparable '*subprime mortgages*' were the main cause of the financial crisis in 2008.

Further threats arise from the risks associated with artificial intelligence, as this development can cause many previous investments in software development to lose much of their value. This is especially true in combination with Private Equity investments, which are mainly based on existing (savings) money, but at the same time serve as collateral for equally large bank loans and the associated money creation. Private banks therefore share in the Private Equity risks.

The biggest threat currently comes from the recent intention of nine European banks to 'launch a *stablecoin* pegged to the euro'. As early as 2026, that *stablecoin* should be used for exchanging crypto currencies and international payments. The (private) banks aim to 'fulfil a utility function with their *stablecoin*' and to set up a commercial payment system WERO. Private and public roles and responsibilities will then become even more intertwined. Against this background, a further financial

⁷ Bezemer, D., Samarina, A., & Zhang, L. (2017). The shift in banks' credit allocation: new data and new findings. (SOM research reports; no. 17012-GEM). Groningen: University of Groningen, SOM research school

⁸ Eijssink G. and D. van Dijk (2022) Borrowing capacity and house prices. The Dutch Central Bank, www.dnb.nl

⁹ Werner, R.A. (2014) Can banks individually create money out of nothing? — The theories and the empirical evidence. *International Review of Financial Analysis* 36, 1-19.

crisis must be seriously considered. Under the current deteriorating circumstances, the political and economic consequences of this will be incalculable.

A European public money system based on the 100% digital euro

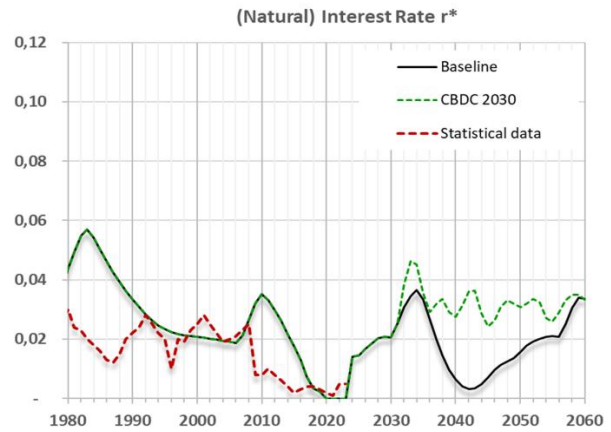
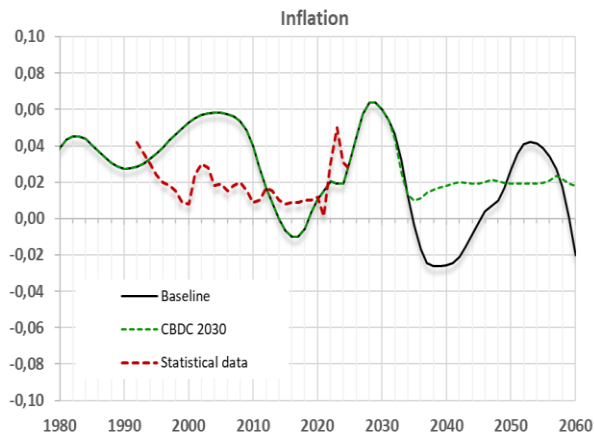
Against these worrying backgrounds, it is seen as urgent to increase the robustness of the European monetary and financial system as soon as possible. This can only be achieved by providing the ECB with the policy tools needed to fulfil its mandate of maintaining (price) stability. This means that the ECB must be able to dynamically increase or decrease the money supply (QE) (quantitative tightening QT), depending on the real-time evolution of the relevant financial and economic indicators, in particular inflation. That is why it is proposed here to switch to a public money system as soon as possible by introducing the 'digital euro' (CBDC) for 100%. In terms of practical feasibility, this is in line with existing initiatives and developments.

This proposal is also in line with the letter to the European Parliament, in which 70 European financial economists argue that the digital euro " a credible store of value through a generous and gradually rising holding limit".¹⁰

This distinguishes and balances public and private roles and responsibilities. In contrast to the current unstable system, money is now created purely for stability reasons, when the economy weakens and prices tend to fall (deflation). The public system is therefore counter-cyclical and stable by nature. This is illustrated by the previously shown model calculations for the amount of money in circulation (M3) and total production (GDP). If the digital euro were to be introduced at 100%, immediately in, or after the next financial crisis, which the model thus expects around 2030, developments would take place as shown by the green dotted lines. In this now public system, the ECB and the national central banks form the Monetary Authority as the exclusive money-creating authority.

- There will indeed be no more crises. Bank runs will no longer take place, because the digital euro is 'real money' and not a claim on real money. As a result of the public-private decoupling, European citizens will no longer have to compensate for the (astronomical) losses of private banks through taxes in the event of a crisis. The calculations also indicate (not shown) that, if a contraction of the economic volume takes place under external, i.e. unavoidable, circumstances, the now countercyclical system will remain stable. Causes may be rising raw material prices, environmental (climate) needs or other disruptions, in particular the imminent energy crisis as of May 2026.
- The development shown by the green lines is accompanied by a very stable (targeted) inflation level of 2%, as shown in the figure below. The amount of money that needs to be created by the ECB to reach 2% inflation at an economic growth rate of about 1%, is about 5% of the money supply in the first decade, later decreasing to about 2% per year. The initially higher levels of 5% are the result of simultaneous repayment of public debt. Because the (free) money market is now functioning again, (natural) interest rates will go to a slightly higher, but stable level between 2 and 4%, as shown in the figure below.

¹⁰ Sustainable Finance Lab (2026) An open letter from European academics to Members of the European Parliament. www.sustainablefinancelab.nl.



- Taxes for European citizens will be structurally lower. Indeed, if price stability is maintained, at least 2% of GDP (> 4% of the government budget) can and should be put into circulation annually as new money, which will no longer have to be paid for in taxes (around 500 billion per year in the euro area). In addition, an accelerated repayment of the public debt is possible by repaying these debts on the basis of newly created (ECB) money, without this having inflationary effects.
- The spending of the (in this way) objectively / legally determined amount of money created is reserved for parliamentary democracy. Under the current circumstances, the money could be spent structurally on the already policy-based increase in defence spending from 2% to 5% of GDP. The money can also be used to absorb the social consequences of the coming energy crisis. Austerity and/or tax increases and/or Eurobond loans would then not be necessary and major political and military coordination problems would be avoided.
- The current interest payments of around 50 - 100 billion euros per year after the ECB QE programme will be cancelled. This advantage comes on top of the 500 billion a year due to the money creation and the very large amounts that the taxpayer no longer will have to raise in the next banking crisis. Private risks are therefore no longer placed on the public taxpayer. Risks taken outside the public CBDC monetary system (shadow banks, crypto-currencies, etc.) are borne entirely by the non-public, private markets, just as it is for non-financial companies.
- The government's ability to steer social development will increase because the new money can be targeted at sectors that are seen as the most relevant at that time from a financial and price stability perspective and/or from an economic or social point of view. More financial stability contributes to economic stability, which in turn leads to more political stability and thus to a reduction in social discontent and populism.

Objections

The often-cited objections to a public euro (100% CBDC system) can easily be debunked:

- Full public control over the creation of new money by the government is bound by macroeconomic frameworks that are (constitutionally) legislated (just as, for example, with regard to the judiciary). This takes away the (historically misplaced) fear that the government will be structurally tempted to put too much money into circulation (resulting in higher inflation than the agreed 2%). As indicated, the spending of that certain amount of newly created money is left to the democratic system.

- Fear of shortages of credit for new social and economic initiatives can be avoided politically by lending some of the publicly created money (at low interest rates if necessary) to the private banking sector, which can on-lend the money to companies for a fee. Moreover, in the now stabilized financial system, more funds (existing money) will become available for investment.
- From the point of view of national sovereignty and strategic autonomy, countries/political parties could object to the money creation at the European level. This can be addressed by channelling newly created money directly to individual countries, based on an agreed socio-economic criterion. On the other hand, the money could be used more easily on a structural basis to finance joint European projects (agriculture, defence, Draghi, etc.).
- In response to the argument that "the transition to a public monetary system is an undesirable experiment with the monetary-financial system as the backbone of the economy", it should be noted that it is precisely the current, naturally unstable financial system that poses a lasting threat to society. Due to the public-private interconnectedness, the enormous private speculative risks in the inevitable next crisis are passed on to the public taxpayer. As Wortmann pointed out back in 2015, "the current monetary system falls short in service to society. It distorts the market. It turns out to be ungovernable and leads to instability and inequality. This undermines society and democracy".¹¹

Practical realization

The practical realisation can be fully aligned with the existing EU plans for the introduction of the digital euro (CBDC) as a formal European currency that citizens and businesses can hold with the ECB and the respective national central banks. Based on the considerations set out here, it is recommended that the digital euro be fully (100%) implemented as soon as possible, by taking the following concrete actions:

- After amending Article 104 of the Maastricht Treaty, the ECB will become a constitutional, independent 'monetary authority' that directs the amount of ('real') money in the eurozone in such a way that price stability (at 2% target inflation) is achieved. These are annually varying amounts, about 3% of GDP. Inflation is determined by many factors, such as the relationship between supply and demand of labour within sectors, the price developments of raw materials on international markets - and the amount of money in circulation. Against this background, it is proposed that the money supply should initially be focused on the inflation that is as well measured, and that other inflation-determining, not purely monetary factors should also be taken into account, such as economic scarcity (energy, housing) or the tendency of firms to occasionally increase their profit margins (*'seller inflation'*). In order to be able to absorb these more economic effects, money creation can be specifically targeted at relevant sectors.
- The use of the independently determined amount that is created annually is left to the democratic community (European Parliament, partly national parliaments). Examples include infrastructure, education, health care or tax cuts. This money does not have to be repaid later, because it is definitively added to the amount of money in circulation (to reach 2% inflation).
- Private banks will become brokers in the financial markets, mediating between supply and demand of digital euros. In addition, they issue securities that can be traded on those markets. The risks taken in the private sector are borne entirely by the private sector itself, as in all other non-public social activities. As the market resumes its work, the enormous complexity of the current system will largely disappear and financial supervision can also be simplified.

¹¹ Wortman, E. (2015) Citizens' Initiative: Our Money; <https://onsgeld.nu/burgerinitiatief.pdf>

- Every citizen and every company has an account with the ECB, with digital euros on it. The money is real, so 100% guaranteed. A deposit guarantee scheme is no longer necessary. Those who want a higher savings yield than 0% can invest or lend their CBDC money to a (private) bank or financial institution, which will on-lend the money, including to mortgage borrowers.
- In the transitional situation, citizens and businesses can transfer their money, which is in current accounts and deposit accounts of private banks, to the Central Bank (CBDC) account if they wish. As a result, a lot of (private bank) money can disappear from the liabilities side of the private bank balance sheets within a short period of time, as a result of which the bank balance sheet is no longer in balance and the bank would run into problems. There are several technical scenarios to prevent this.¹² The most obvious is the procedure whereby the ECB immediately lends as much 'real' money to the private banks as citizens and companies have withdrawn from the private bank's accounts. The balance sheet then remains in balance for the duration of the loan, giving private banks time and opportunity to adapt their structure to the new situation. The transition to the new situation will then not have any negative consequences for the economy.
- Finally, calculations were carried out under the assumption that the digital euro was introduced at 50% instead of 100%, implying that both private banks and the ECB create money (van Egmond and de Vries, 2024). In this case, the stability of the system also increases, but much less than in the 100% case, because the countercyclical money creation still has to compensate for the procyclical money creation by private banks. On the other hand, a responsible, phased transition from the private to the public money system could be preferable. A detailed and balanced proposal for such a compromise is given by van der Linden (2026) in his article: 'Restructuring Europe's Monetary and Financial Architecture in a Fragmenting World Order'.¹³

¹² European Central Bank ECB (2022) *Digital currencies and central bank intermediation; exploring different approaches to assess the impact of a digital euro on euro area banks*. ECB Occasional Paper Series May 2022

¹³ Van der Linden (M.J. (2026) *Restructuring Europe's Monetary and Financial Architecture in a Fragmenting World Order*: [Restructuring Europe's Monetary and Financial Architecture in a Fragmenting World Order by Martijn Jeroen van der Linden :: SSRN](#)