

The European Central Bank admits that it can never run ...

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I think it worth sharing this from an article on the [Brave New Europe](#) website (where articles from this blog also appear, frequently) in which Stanislas Jourdan of Positive Money Europe notes this:

Central banks are public institutions which have been given the powerful role of creating a legal tender and supervising credit creation by private banks. Logically, and as explained extensively [in the literature](#), a central bank cannot lack something it can create infinitely. It is, therefore, possible for a central bank to run into negative equity — that is, to appear financially insolvent on paper — without any immediate operational problems.

In this context, it is extremely reassuring that the ECB President Christine Lagarde has made a remarkably [clear statement](#) on this, when asked by French MEP Manon Aubry in a Written Question to the ECB:

“In response to your question on how the Eurosystem technically provides liquidity to the financial system, the Eurosystem, as part of its monetary policy measures, purchases securities — in net terms — and by doing so creates central bank money. Central bank money is also created when commercial banks, through the Eurosystem’s refinancing operations, borrow money from the Eurosystem against adequate collateral. The electronically created central bank money is held on the commercial banks’ accounts with their NCBs, which are also referred to as bank reserves with the central bank. As the sole issuer of euro-denominated central bank money (i.e. banknotes and bank reserves), the Eurosystem will always be able to generate additional liquidity as needed to fulfil its mandate. Therefore, as I had the opportunity to clarify at the last hearing at the ECON Committee, by definition, the ECB will neither run out of liquidity nor fail.”

This matter of fact should have been made clear long ago. But for reasons unknown, it was not mentioned, or at least not stated so clearly. For example, we remember an epic episode where Mario Draghi was asked a similar question by a Swedish journalist. Draghi was [laughably embarrassed](#).

In contrast, Lagarde's clear-cut response illustrates how ECB's doctrine on this issue has finally evolved. It should now be put to bed for good.

I agree.

This debate should be over, for good.

For the elimination of doubt, the Bank of England is in exactly the same position.