

Governments cannot borrow in their own currencies, but ...

Published: January 13, 2026, 3:14 pm

I [found this headline in the FT](#) both simultaneously worrying and intriguing:

Olaf Scholz plots a way round Germany's debt rules

Incoming coalition has smorgasbord of schemes for raising funds without violating constitutional cap on new borrowing



Olaf Scholz is confident he can square the circle of increasing investment while sticking to Germany's strict rules on public debt © Filip Singer/Pool/EPA-EFE/Shutterstock

Germany has had a constitutional ban on its government borrowing for some years now. The move would have been utterly economically crippling if Germany still had its own exclusive currency because, of course, it would have meant a steady reduction in the German money supply at a time when banks would not have been making good the deficiency with private lending. Thankfully for Germany, euro deficits in other countries in the eurozone prevented this happening.

That said, the constraint that this policy deliberately puts on government, meaning that it is at least superficially unable to make use of fiscal policy and is also constrained in the way in which it can deal with the multiple crises that we face, is a very clear challenge to the incoming broadly left of centre government, in which the Greens also play a role.

I am pleased that the new coalition government is working on ways to get around this problem. It's most likely mechanism for doing so is to expand the role for the German state investment bank -the KfW - which is, as far as I am aware, the biggest Bank of its type. It has had a massive influence on the way in which the state is engaged with investment in the German economy for the overall good, and the plan is to continue that, with a reorientation towards green issues.

My suggestion for this coalition is quite simple. They do not need to borrow. All that they need to do is to provide a place of safety deposit for savers. Whether those deposit accounts be available for immediate withdrawal, or are structured so that deposits can be locked in for a number of years, this then places the obligation upon the state to invest the funds in question. Linking these deposits to a programme managed by the KfW or some other institution would make obvious sense. But that is not borrowing. it is savings management.

You can, of course, call this playing semantics. But actually, it is not. That is because already know that governments cannot borrow in their own currencies. After all, they created the currency in question. They cannot then borrow what was already created by them. In that case to describe anything as government borrowing is to play semantics.

What is, however, undoubtedly true is that there are people who hold balances in the currency created by the government. That is because the government in question has chosen not to tax those sums back, as yet. To provide those people with those balances with places of safe deposit is something quite different from a government borrowing. Instead, it provides them with protection that they might not otherwise enjoy.

This is not semantics. This is about recognising the substance of what is actually happening within an economy. Governments do not borrow in their own currencies, and since Germany can create euros by borrowing it does, in effect, have its own currency even if it is not separately identifiable as such. They can, however, act as bankers for that currency, and I suggest that Germany should do just that. So should the UK.

The positive is that those funds that are placed into the custodial care of the government. It then has a duty, as custodian, to manage those funds to best effect on behalf of society. If it so happens that this then supports a programme of green investment, so be it. But it would not be funded by borrowing. It would be funded by private depositors, and that is something else.