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Do quantitative easing and Treasury debt buybacks lead to a cancellation of public debt?

A debate has opened in France around proposals to cancel the share of public debt held by the Banque de France on behalf of the ECB. A similar debate has opened in the United States around the Treasury's buybacks of public debt with maturities of between 10 and 30 years. We therefore examine the effects of quantitative easing, i.e. the purchase of public debt by the central bank, and of debt buybacks by the Treasury. In particular, is either of them equivalent to a cancellation of part of the public debt?

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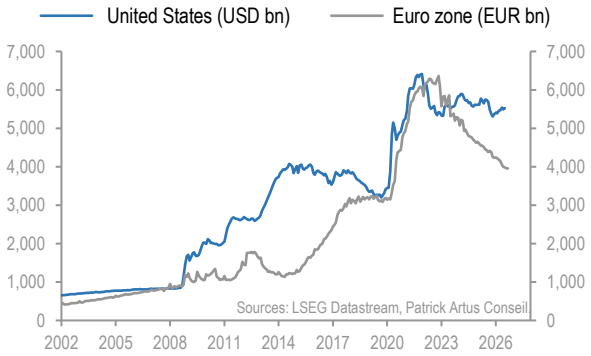
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The case of quantitative easing

Quantitative easing consists in the purchase of debt by the central bank (we focus on purchases of public debt, but quantitative easing also covers private debt). It was implemented notably in the United States from 2008 to 2014 and from 2020 to 2022, and in the euro zone from 2015 to 2018 and from 2020 to 2022 (**Chart 1**).

Chart 1
Monetary base



Quantitative easing:

- **reduces the outstanding stock of public debt held by economic agents other than the central bank**;
- **increases banks' deposits with the central bank by the same amount**.

The central bank can indeed purchase public debt:

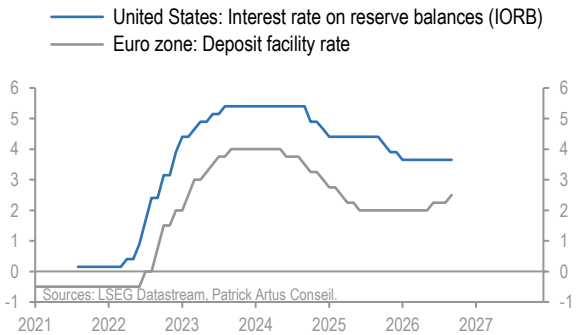
- directly from a bank; it then settles its purchases by crediting that bank's account with the central bank;
- from a household or an institutional investor; it settles by crediting the account held with the central bank by that household's or that investor's bank, which in turn credits the household's or the investor's account in its own books.

In all cases, quantitative easing can be seen to amount to a substitution of banks' deposits with the central bank for public debt. The central bank remits its profits to the government. If it holds public debt, it receives the interest paid by the government on that debt and remits that interest to the government together with the rest of its profits.

It is therefore tempting to equate quantitative easing with a cancellation of public debt for as long as it is not reversed (for as long as the central bank does not embark on quantitative tightening), since the public debt held by the central bank is no longer placed on financial markets and becomes costless for the government.

Account must nevertheless be taken of the fact that **the central bank remunerates the deposits that banks hold in its books**. In the euro zone, this remuneration is paid at the deposit facility rate; in the United States, at the rate of interest on reserve balances (IORB) (**Chart 2**).

Chart 2
Interest rate on banks' reserves held with the central bank (%)

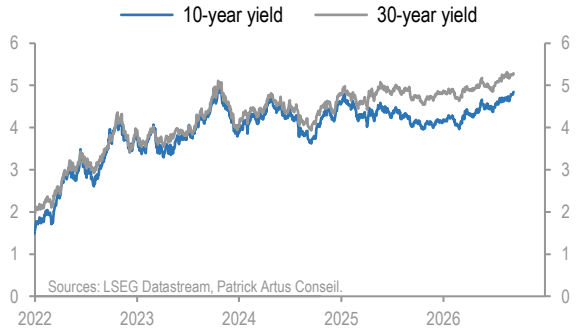


This remuneration reduces the central bank's profits, and hence the amounts it can remit to the Treasury. The argument equating quantitative easing with a cancellation of debt is therefore partly wrong, since part of the interest burden is transferred from the Treasury to the central bank, which reduces by the same amount the profits that the central bank remits to the Treasury.

The case of Treasury debt buybacks

On 19 August 2026, the US Treasury announced that it would at least double the amount of **buybacks of public debt with maturities of between 10 and 30 years** relative to the previously published buyback schedule, with the aim of reducing the upward pressure on long-term interest rates (**Chart 3**).

Chart 3
United States: 10-year and 30-year government bond yields (%)



In return for these buybacks, **the Treasury is issuing short-maturity securities** (Treasury bills, with original maturities of between 1 month and 1 year), which increases the share of short-term securities in the public debt (**Chart 4**) and lowers the average maturity of that debt (**Chart 5**).

Chart 4
United States: composition of marketable federal debt (as % of total)

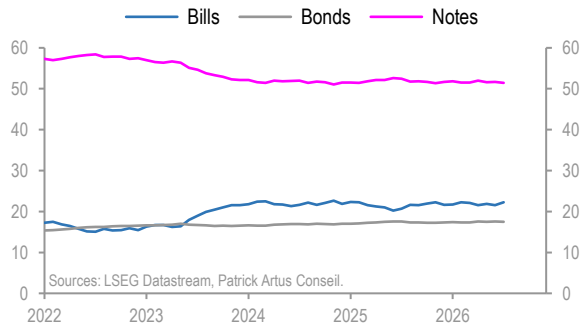
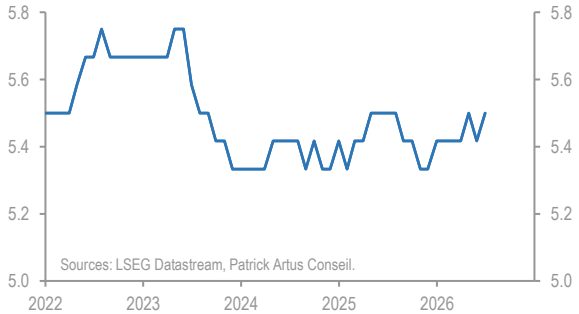


Chart 5
United States: Average maturity of outstanding marketable federal debt (years)



There is no cancellation of debt, but a substitution of short-term debt for long-term debt. The mechanical effect is a reduction in the supply of long-term securities, and hence a fall in long-term interest rates. This substitution nevertheless entails a **loss of credibility for both the Treasury and the central bank**: for the Treasury, because it exposes itself to having to refinance its debt frequently; for the central bank, because the short maturity of the debt may encourage it not to raise its policy rates, even when inflation exceeds its target.

Summary: public debt is never cancelled

Irreversible quantitative easing is often presented as equivalent to a cancellation of public debt. This argument is partly wrong. Quantitative easing increases the amount of banks' deposits with the central bank. Since these deposits are remunerated, the central bank's profits are reduced: it therefore cannot remit to the Treasury the whole of the interest it receives on the Treasury securities it holds. Public debt held by the central bank therefore continues to carry a cost for the Treasury.

Treasury buybacks of long-term debt substitute short-term debt for long-term debt. They lead to a flattening of the yield curve, unless the deterioration in the Treasury's credibility is too severe and drives long-term interest rates back up.

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