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Cancelling the debt the Eurosystem holds is not a write-off. It is *a bet on the term premium.*

Matthieu Pigasse said on 23 August that about 20% of French debt is held by the ECB and that it can be cancelled "with no economic impact and no financial impact". Jean-Luc Mélenchon said the next day that it would cost no one anything. Olivier Blanchard replied that this is an old argument that resurfaces regularly and is simply false. All three are arguing about the coupon — and on the coupon, Blanchard is right and the arithmetic is not close. But the tribunes that started this in 2020 were arguing about something else, the principal, and that argument is both stronger and almost entirely absent from the current round. This note prices both, and shows every number. It also adjudicates, statement by statement, the technical exchange that followed between Quentin Vandeweyer and Nicolas Dufrêne, and prices the claim that runs underneath the whole debate — that inflation is fine as long as wages keep up.

01

The claim, and what it is worth

The Eurosystem holds **€599.8bn** of French public-sector securities under the PSPP and PEPP asset purchase programmes, at amortised cost, as of 31 July 2026. That is the object of the proposal. Of it, about 89.5% sits on the Banque de France's own balance sheet at its own risk; the remaining 10.5% sits on the ECB's books and is subject to Eurosystem loss-sharing.

Cancel all of it and, in the first instance, three things happen.

PER YEAR	€ BN
Coupon the Treasury stops paying, at a derived 1.078% average yield	6.47
Central-bank income the State stops receiving — it owns the Banque de France outright	5.92
Net to the Treasury	**0.54**

That is the whole of the first-order cash effect. The published debt ratio falls by **20.0 points**, from 117.7% to 97.7% of GDP, because Maastricht debt excludes the central bank — but no consolidated economic quantity moves at all.

The residual €0.54bn a year is not a saving. It is the slice of the portfolio that sits on the ECB's own books, whose income is pooled across the Eurosystem and shared by capital key. France's key is 19.77%, so France keeps a fifth of that slice and the other member states absorb four fifths — €50.5bn as a one-off balance-sheet loss, of which €16.6bn falls on Germany. It is not a free lunch. It is somebody else's lunch, and they have a veto.

02

What is actually on the table

Three different operations are being discussed as if they were one. Economically they are identical; legally and in accounting terms they are not.

Outright write-off. The Eurosystem abandons its claim. This is what "annulation" literally means and what Mélenchon described on 24 August as putting the debt in the fire. It reduces published Maastricht debt by the full amount, and it waives the right to payment that the Court of Justice invoked in *Gauweiler* ¶118 and *Weiss* ¶146 when it upheld hold-to-maturity — on the reading that the safeguard was load-bearing, which is a reading and not a holding: ¶118 says in the same breath that the possibility of holding to maturity "does not play a decisive role in this regard".

Perpetual zero-coupon. The bonds are exchanged for an undated claim bearing no interest. This is what the February 2021 tribune offered as its own equivalent, and what LFI's May 2020 resolution asked for. It may reduce nothing at all: Maastricht debt is measured at face value and Eurostat has never ruled on this instrument. Legally it is arguably worse than a write-off — it is an affirmative transaction with the public sector on non-market terms, which Regulation 3603/93 Art. 1(1)(b)(iii) defines as a prohibited credit facility.

Freeze. Holdings are locked and rolled indefinitely. This reduces nothing, and it is close to what the Eurosystem did anyway for eight years.

The figure decoder

Every number in circulation is defensible under some perimeter and wrong under the others. The denominators are being swapped mid-argument.

€469bn — AFP and the Banque de France, 31 May 2026. Central-government securities only, and **16.3%** of the €2,881.91bn of negotiable State debt. The 18% usually attached to this figure comes from a €2,613bn denominator that is not the negotiable total — which is exactly the swap this decoder exists to catch.

€600bn — the ECB's own series at 31 July 2026, and the figure used here. PSPP plus PEPP holdings of French *public-sector* securities: the État plus recognised agencies — CADES, UNEDIC, SNCF Réseau, Action Logement — and regional issuers, at amortised cost. 17.0% of Maastricht debt.

€640bn — dettedelafrance.fr, 24–25 August 2026. An AI-assisted page on an AFT-adjacent domain, widely re-quoted. Not an official publication, and it says so itself.

€700bn — Pigasse and the press, 23–24 August 2026. "About 20% of French debt", which is an over-estimate on every published measure.

€839bn — the ECB's peak, January 2023. The maximum ever held; quantitative tightening has retired €239bn of it since.

The last row matters more than it looks. Eurosystem holdings are falling at roughly €68bn a year with nobody voting on anything, and on the current run-off the portfolio is largely gone by the mid-2030s. Cancellation is a proposal to stop an unwind that is already happening, not to remove a debt that would otherwise persist.

03

The first ledger, and the second

The consolidation argument is right, and it is worth stating precisely because both camps garble it. Consolidate the Treasury and the central bank. The consolidated public sector's liability to everyone outside it is the sum of bonds held by the public, central-bank reserves, and banknotes:

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L = B_private + V + H
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Bonds held by the central bank do not appear. Cancelling them therefore changes the consolidated liability by exactly zero. That is the formal content of the claim that cancellation changes nothing — and it is correct.

But it proves the operation is **empty**, not that it is free. It cannot be costless and resource-releasing at the same time, and the pro case in its 2026 soundbite form needs both propositions.

The interesting thing is that the movement's own founding text says so first, and dismisses the dividend offset as beside the point:

> *Prétendre que « les États ne seraient à l'arrivée ni plus riches ni plus pauvres » au motif qu'ils ne recevraient plus les dividendes que leur verse la banque centrale, c'est confondre l'essentiel et le dérisoire.*
>
> *— Le Monde, 26 May 2020*

So the serious version of the case is not about the coupon. It is the next section.

04

Phase 2: the principal, which is the real argument

Immediately after rejecting the dividend offset, the May 2020 tribune says what the proposal is actually for:

> *En cas d'annulation, les États n'auraient plus à rembourser* ***le principal*** *(une dette ne se réduit pas à sa charge d'intérêts, surtout lorsque ceux-ci sont nuls !). Ils pourraient alors se réendetter pour un même montant afin d'investir... au lieu de faire « rouler » la dette ad nauseam.*

This is right, it is the strongest form of the case, and the standard rebuttal does not touch it. It also has a precise price, which nobody in the current round has computed.

Consider what happens when the cancelled bonds would have matured — on average 6.4 years out, since the portfolio's weighted average maturity is 6.11 years for PSPP and 6.79 for PEPP and nothing is being reinvested.

Without cancellation. The Treasury repays the Banque de France. It raises the money by issuing new bonds to private investors, who pay with reserves. The Banque de France, not reinvesting, uses the proceeds to extinguish those reserves. Privately-held bonds rise; reserves fall by the same amount; the consolidated liability is unchanged. This is quantitative tightening, and it is simply QE run backwards.

With cancellation. None of that happens. The bonds never mature, the Treasury never refinances, and the reserves stay outstanding — funded overnight at the deposit facility rate rather than long at the market rate.

So the model has two regimes, and they are very different in size:

	€ BN A YEAR
Phase 1, years 1–6 — coupon saved less central-bank income lost	0.54
Phase 2, thereafter — €507bn funded overnight instead of refinanced at 3.50%	6.34
Present value of both phases, 20 years at 3%	**63**

The phase 2 number is an order of magnitude larger than the coupon, and it is the answer to the "it's all offset" rebuttal. But look closely at what it is. It is the difference between what France pays on a long bond and what it pays on an overnight reserve. That is a **term premium**, and a term premium is not free money — it is the compensation the market pays for bearing interest-rate and rollover risk.

The tribune supplies the correct caveat itself:

> *S'il venait à s'interrompre et que les taux remontaient, les États seraient exposés à l'augmentation du coût du simple renouvellement de sa dette.*

Exactly so. Cancellation does not remove that exposure; it makes it permanent and removes the option to stop. A 200bp move in the deposit rate costs **€10bn a year** on the same stock, and there is no maturity date at which it ends.

One retort deserves care rather than dismissal. It is often said that France could capture the same term premium today by issuing bills instead of bonds, without any treaty fight — so the gain is not attributable to cancellation. That is only half right. €600bn of bills must be re-placed with private buyers every few months at whatever spread they then demand; central-bank reserves are a closed system whose aggregate quantity the holders cannot refuse. Cancellation therefore buys a genuinely better version of short funding than the Agence France Trésor could arrange on its own. What it does not buy is an escape from the risk that short funding is priced for. The AFT keeps average maturity at 8 years 5 months on purpose. This proposal shortens it, permanently, and calls the compensation a saving.

05

How little it takes to erase the gain

Set phase 2 aside for a moment and take the pro camp's own arithmetic at face value — the €6.47bn coupon, with no offset at all. Apply a permanent widening of France's funding spread to the €2,282bn of negotiable debt that is *not* cancelled.

The entire headline gain disappears at 28 basis points. On matched perimeters — the coupon on the État-only €469bn against the State debt then left standing — at 21bp.

For scale: on the ECB's monthly series the OAT–Bund spread went from 47bp in March 2024 to 84bp in January 2025 — 37 basis points — on budget politics alone, with no one proposing to repudiate anything. France has been downgraded twice in thirteen months, by Fitch on 12 September 2025 and by S&P on 17 October 2025 — though Fitch affirmed A+ with a stable outlook on 28 August 2026, so the direction is not one-way. The 10-year OAT stands at 3.85% on the ECB's monthly benchmark for July 2026. And the 2027 budget arrives on 30 September in front of a parliament in which one group, La France insoumise, has already said it will move to censure it.

This is not a forecast. The model sets the spread lever to zero by default precisely so that it never assumes the answer. It is a statement about how thin the margin is: the sophisticated case for cancellation requires a market that does not reprice French risk by a third of the move it made in 2024, in response to an operation whose entire political purpose is to signal that future primary surpluses will be lower.

06

The reserve trap

There is one lever that would make cancellation genuinely pay in cash, and it is the missing half of every version of the proposal: stop remunerating bank reserves.

The logic is unavoidable. QE swapped long fixed-rate bonds for overnight reserves at the deposit rate. Write off the bond and the reserve is still there, still costing 2.25% a year. Every serious participant, including the idea's proponents, concedes that ending that payment is a tax on banks. Andrew Bailey put it most sharply, writing to an MP who had proposed it:

> *Removing remuneration on reserves is akin to a tax on banks. It is only appropriate that such a tax be imposed by the elected Government of the day.*

Here is the part nobody in the French debate has run. Reserve remuneration is a Governing Council decision applying uniformly across the euro area; a member state cannot tax only its own banks. Minimum reserves have earned 0% since September 2023, so €173.9bn is already outside the base, of which France's pro-rata share is about €37.2bn. And on the remunerated base that remains, **French banks hold 21.4% while France's capital key is 19.77%**. Under Article 32.5 of the ESCB Statute, monetary income is pooled and redistributed by that key. The French share is an estimate rather than a published figure, so it is worth stating its range: across the €31–46bn that the Banque de France's own current-account data allow for French minimum reserves, France's share of the remunerated base runs from 21.0% to 21.7%. It is above the 19.77% capital key at either end, so the conclusion does not turn on the estimate.

France therefore pays more of the tax than it collects of the proceeds.

AT FULL UNREMUNERATION, NO BASE EROSION	€ BN A YEAR
Saved across the Eurosystem	49.4
Paid by French banks	10.6
Received by the French Treasury	9.8
Net for France	**-0.8**

The €10.6bn is a gross pre-tax levy equal to **26.6%** of the six main French banking groups' entire 2025 net income — which is a post-tax figure, so the two are not the same quantity and this must not be read as profits falling by a quarter. Under this note's own incidence split only **6.7%** of net income lands on shareholders; the rest is passed through to depositors and borrowers. And the incidence evidence on that pass-through is one-sided: Gray (IMF, 2011) shows unremunerated requirements force banks to widen the deposit–loan spread by 1/(1–RR); McCauley and Pinter's reading of the eurodollar natural experiment is that mobile, wealthy and corporate depositors relocate, "leaving smaller, less wealthy depositors to pay the tax". The zero lower bound that protected French retail savers in 2014–19 is not binding at a positive policy rate. No study we found supports the view that shareholders bear it.

Two honest qualifications. First, the net loss is small — €0.8bn on a €10bn gross transfer — and it is narrowing: France's share of euro-area reserves has fallen from 27.1% at end-2022 to 21.4% today as QT has run, converging on the capital key. The 27.1% is the 30 December 2022 reading and the series is strongly seasonal at year-end — the same share was 22.0% on 1 July 2022 — so the fall is smaller than a naive start-to-finish comparison suggests. It could flip. Second, the standard objection that ending remuneration would break monetary control is weaker than usually asserted against a *tiered* system: the ECB ran one from October 2019 to September 2022 with about €855bn exempted at a 50bp differential, and the Banque de France's own study found it had not led to a sustained rise in money-market rates. But that tier exempted reserves from a *negative* rate, so it was a subsidy; ending remuneration at a positive rate is a tax, and the arbitrage runs the other way. The precedent is thinner than it looks in both directions.

07

What QE already did to French debt

The Office for Budget Responsibility publishes this calculation for the United Kingdom every year. Nobody publishes it for France, so we have derived it.

French negotiable debt has an average maturity of 8 years and 5 months, one of the longest in the G7. But that figure counts the €600bn the Eurosystem holds as ordinary long-term debt. It is not: it was paid for with overnight reserves. Consolidate the Treasury and the Banque de France — take the bonds out, put the reserves in:

	AS PUBLISHED	CONSOLIDATED
Average maturity	8.45 years	**7.35 years**
Repricing within one year	7.6% (€220bn)	**26.1% (€727bn)**

QE shortened France's effective consolidated maturity by 1.1 years, and more than tripled the share of the debt that reprices within a year. On matched perimeters — central government only — the figures are 7.31 years and 24.9%.

This reframes the whole question. The proposal is a duration decision wearing a debt-relief costume. QE was a €600bn fixed-for-floating swap that France has already entered into; QT is unwinding it; cancellation stops the unwind and makes the swap permanent.

08

Is the central bank then insolvent?

This is the question the Vandeweyer–Dufrêne exchange of 24–28 August turns on, and both men argue it qualitatively. It is a quantity, and it is computable from published figures. One caution before the names: the thread is public and the section below links two of its posts, but we could not fetch it to check the wording, so the quotations are reported rather than verified — see the provenance warning that opens that section.

Quentin Vandeweyer (London Business School, previously Chicago Booth and the ECB's research directorate) argues that once the asset is written off the central bank has three options and two of them are inflationary. Keep remunerating every reserve and the stock snowballs at the policy rate with nothing to pay it — Ricardo Reis's Ponzi definition of central-bank insolvency. Stop remunerating and the effective policy rate falls below the natural rate, which is Wicksellian inflation. Or tier, which preserves rate control but is a tax on banks that recapitalises the central bank by the back door. Nicolas Dufrêne replies that the snowball already exists without any cancellation, because reserve interest is already paid by crediting reserve accounts.

Reis distinguishes three insolvencies — period, rule and intertemporal. The operative one here is the third: a central bank is solvent while its net worth plus the present value of its seigniorage is non-negative. That gives two tests, a flow test and a stock test, and they give different answers.

The flow test. Project the Banque de France's liabilities to credit institutions forward, letting the gap between what it pays on reserves and what its remaining portfolio earns be funded by creating more reserves. The stock grows faster than the economy only if the deposit rate exceeds nominal growth plus the yield the surviving assets throw off.

The level of that critical rate depends on where the balance sheet is cut. TARGET2 is a genuinely remunerated liability — €196.8bn at the 2.40% main refinancing rate — so leaving it out looks like it flatters the funding gap. But the asset side of this module is only the monetary-policy securities book: gold, foreign reserves and refinancing operations are not in it, and those are what the TARGET2 position and the banknote issue actually fund. Charging one side's cost without the other side's income is not conservatism, it is a thumb on the scale, and it would push toward this note's own conclusion. So both perimeters are reported.

CRITICAL POLICY RATE	EXCLUDING TARGET2	INCLUDING TARGET2
No cancellation	3.74%	2.81%
€537bn written off	**3.02%**	**2.09%**
Shift	**−0.72pp**	**−0.72pp**

The shift is identical to the last decimal on either perimeter, and that is the point: 0.72 points is the robust number, the level is a choice of perimeter, and any statement of the form "3.74% to 3.02%" is a perimeter-dependent reading rather than a bare fact. Reserves start at 16.9% of GDP in both cases and, on the excluding-TARGET2 default, stand at 11.4% of GDP at year 30 without cancellation against 13.7% with.

The stock test. The write-off takes Banque de France net worth from **+€283bn to −€253bn**. Solvency then rests entirely on the present value of banknote seigniorage — the interest saved by funding assets with liabilities that pay nothing, €6.7bn a year at today's rate.

NET DISCOUNT RATE	NET WORTH + PV(SEIGNIORAGE), € BN
0.5%	+1,085
1.0%	+416
2.0%	+81
2.64% — break-even	**0**
3.0%	−30

Neither side is right, and the reason is interesting. On the flow, Dufrêne wins: at a 2.25% deposit rate against 2.79% nominal growth the reserve stock shrinks relative to the economy with or without a write-off. Nothing explodes. But cancellation is not neutral to the dynamic — it removes the asset income that offsets the reserve bill, and lowers the rate at which the stock starts compounding faster than the economy by **0.72 points**: from 3.74% to 3.02% excluding the Banque de France's TARGET2 liability, from 2.81% to 2.09% including it, the same 0.72 points on either perimeter. The shift is the number to quote; the level is a choice of perimeter. The deposit rate stood at 4.00% for nearly nine months — from 20 September 2023 to 11 June 2024, which was its last day at that level — and it was last above the 3.02% trigger on 17 December 2024. Vandeweyer's mechanism is real; it is simply not live at today's rates. On the stock, neither wins: solvency breaks even at a net discount rate of 2.64%. Whether the Banque de France is intertemporally solvent after this operation is not a fact — it is a choice of discount rate, which is exactly what Reis warned about in the 2015 *Journal of Monetary Economics* paper, when he showed the same seigniorage flow is worth 5% or 94% of GDP depending on the rate you pick.

There is a further point that neither party makes, and it is the strongest technical argument against the operation. The seigniorage that is supposed to rescue the balance sheet is *proportional to the policy rate*: €6.7bn a year at 2.25%, and zero at the zero bound. It therefore vanishes in precisely the deflationary states where a central bank needs capital, and it is largest in the inflationary states where the central bank must raise rates — which is also when the reserve bill explodes. The two move together, so the knife-edge is sharper than the break-even table alone suggests.

One legal correction belongs here, because it is the pivot of the reply. The 26 May 2020 tribune rests part of its case on Article 32.4 by number — « cette dernière pourrait même les indemniser pour le faire (article 32.4 du même protocole) » — and the exchange restated that in its strongest form: that the Governing Council may compensate a national central bank's losses "par tout moyen approprié", by any appropriate means, which is to say by creating money if needed. We take the argument as the tribune makes it, because the tribune is a text anyone can read. Either way the text says something else. Article 32.4, second subparagraph: *« L'indemnisation prend la forme que le conseil des gouverneurs juge appropriée ; ces montants peuvent être compensés avec le revenu monétaire des banques centrales nationales. »* It says the **form**, not the means. The sentence continues past the semicolon and names the only funding source there is — pooled monetary income, which is to say the other national central banks. And it is available for banknote costs or, "in exceptional circumstances", for specific monetary-policy losses. Far from being a money-printing clause, Article 32.4 is the mutualisation clause, and this model prices what invoking it would mean: €50.5bn absorbed by France's partners, €16.6bn of it by Germany. It is an argument for the proposal's opponents.

09

The exchange, line by line

Every statement below is scored against the model in this note and against the primary sources. In the web version the colour code is green, orange, red; here it is stated. Nobody's side wins uniformly, which is the point.

Provenance — read this before the verdicts. The thread is public and you can read it yourself: the opening post of 24 August and a later instalment of 28 August. What we could not do is *fetch* it — X blocks automated access — so the wording quoted below reached us as pasted text and has not been checked character by character against the posts. Treat the quotations as reported rather than verified, and follow the links if a verdict matters to you. Two consequences we have acted on. Passages we hold in substance but not in wording are marked **[reconstructed]** and are not presented as quotations. And the one red verdict that rested on this exchange — the Article 32.4 argument — has been moved onto the *Le Monde* tribune of 26 May 2020, which makes the same argument and is public, so the red mark rests on a document anyone can read rather than on a sentence only we have seen. The note's other red verdict, on the claim that inflation is harmless provided wages keep up, does not come from this thread at all: it is a recurring claim from the wider debate, scored on INSEE and ECB statistics, and it carries no provenance problem. We have no permalink at all for the Dufrêne replies.

The State pays interest to the Banque de France, and the Banque de France pays its profit back to the State. Cancel the bond and you cancel both legs. — Q. Vandeweyer, 24 August 2026 — the opening post, public and linked in the provenance warning above. **[reconstructed]**

Survives checking — Correct. This is the consolidation argument and it is right. Our model returns it to the euro: **€6.47bn** of coupon stops being paid, **€5.92bn** of central-bank income stops being received. What is unusual is that both camps agree on it. The 2020 tribune says the same thing and calls arguing about the coupon *« confondre l'essentiel et le dérisoire »*. The verdict here is on the consolidation argument, which our own model reproduces, not on the wording, which is ours: this entry is a reconstruction.

« Si la perte excède la valeur actualisée du seigneuriage, la banque centrale est insolvable. Il n'y a pas de free lunch. » — Q. Vandeweyer, exchange of 24–28 August 2026. Text supplied to us; the thread is public but we could not fetch it to verify the wording.

Half-right, or right only under unstated conditions — Right that the assets matter — but the arithmetic is a knife-edge, not a verdict. The criterion is Reis's and the paraphrase is near-verbatim. But run it. The write-off takes Banque de France net worth from **+€283bn to −€253bn**; solvency then rests on banknote seigniorage of €6.7bn a year, and the two break even at a net discount rate of **2.64%**. Solvent below, insolvent above. Reis himself flagged this indeterminacy in the 2015 *Journal of Monetary Economics* paper, when he showed the same flow is worth 5% or 94% of GDP depending on the rate you pick. The honest statement is *on the boundary*, not over it. The verdict is on the criterion and the arithmetic, both of which are checkable; we cannot vouch for the wording.

Once the asset is gone the central bank has three options. Keep remunerating reserves and the stock snowballs with nothing to pay it. Stop remunerating and the policy rate falls below the natural rate. Or tier — which is a tax on banks that recapitalises the central bank by the back door. — Q. Vandeweyer, exchange of 24–28 August 2026. Text supplied to us; the thread is public but we could not fetch it to verify the wording. **[reconstructed]**

Half-right, or right only under unstated conditions — Three options, two inflationary — the mechanism is right, the trigger is not live. The taxonomy is right and it is the sharpest framing anyone brought to this. But the first branch is an empirical question, and the answer today is no: at a 2.25% deposit rate against 2.79% nominal growth the reserve stock *shrinks* relative to the economy, with or without a write-off. What cancellation does is move the trigger down by **0.72 points**. The level of the trigger depends on the perimeter and the shift does not: excluding the Banque de France's TARGET2 liability it goes from **3.74% to 3.02%**, including it from **2.81% to 2.09%**, a 0.72-point move either way. The deposit rate stood at 4.00% for nearly nine months in 2023–24 and was last above the 3.02% trigger on 17 December 2024, so the mechanism is real and was live then. It is not live now. This entry is a reconstruction of the taxonomy, not a quotation, and the verdict is on the economics rather than on any form of words.

« cette dernière pourrait même les indemniser pour le faire (article 32.4 du même protocole) » — the *Le Monde* tribune of 26 May 2020, restated by Nicolas Dufrêne in the exchange of 24–28 August 2026. The tribune is public and the restatement is only reported to us, so the verdict is on the tribune.

Does not survive — The clause says the opposite. We score the printed tribune rather than a post nobody can open. It cites the article by number and rests the case on it; the exchange later put the same argument in its strongest form — that the Governing Council may make good the losses by any « moyen approprié », meaning by creating money if need be. Both readings fail on the text. Article 32.4, second subparagraph, reads: *« L'indemnisation prend la forme que le conseil des gouverneurs juge appropriée ; ces montants peuvent être compensés avec le revenu monétaire des banques centrales nationales. »* Three things go wrong. It says the **form**, not the means. The sentence continues past the semicolon and names the only funding source there is — pooled monetary income, which is to say *the other national central banks*. And it is open for banknote costs or, « dans des circonstances exceptionnelles », for specific monetary-policy losses. Article 32.4 is the mutualisation clause, and this model prices what invoking it costs: **€50.5bn** absorbed by France's partners, **€16.6bn** of it by Germany. It is an argument for the other side.

« Le Ponzi de Reis ? La dynamique existe déjà et sans annulation : les intérêts sur les réserves sont déjà payés en créditant des comptes de réserve. Supprimez la rémunération et la boule de neige disparaît avec elle. » — N. Dufrêne, exchange of 24–28 August 2026. Text supplied to us; the thread is public but we could not fetch it to verify the wording.

Half-right, or right only under unstated conditions — Right that the dynamic pre-exists — wrong that cancellation is neutral to it. Correct on the first half, and our model agrees: nothing explodes at today's rates, cancellation or no cancellation. Wrong on the second. Cancellation removes the asset income that offsets the reserve bill, which is precisely why the critical rate falls by 0.72 points — from 3.74% to 3.02% excluding the Banque de France's TARGET2 liability, from 2.81% to 2.09% including it, the same 0.72 points on either perimeter. And the second sentence is true but self-defeating: ending remuneration does stop the snowball, and it is the tax — the same tax the other side is accused of wanting.

« Plus de 300 milliards d'euros versés aux banques ces dernières années, créés ex nihilo. Cette planche à billets-là, curieusement, ne vous dérange pas. » — N. Dufrêne, exchange of 24–28 August 2026. Text supplied to us; the thread is public but we could not fetch it to verify the wording.

Survives checking — The number holds, at euro-area scale. Computed from the ECB's deposit-facility series against the daily rate path, the Eurosystem paid roughly **€362bn** of interest on reserves between 27 July 2022 and 28 August 2026, running near €45bn a year now. Two things the rhetoric skips. It is a euro-area figure — France's share is about €70bn, not €300bn. And between 2014 and 2022 the same banks paid the Eurosystem *negative* interest on the same balances, roughly €40bn cumulatively; quoting only the positive leg is selective. The reserves were not created to pay interest. They were created when the bonds were bought. The €362bn is our own computation from a published series, so this verdict does not depend on the disputed text.

« Si l'objectif est de taxer les banques, l'annulation ne sert à rien. Il suffit que la Banque de France cesse de rémunérer les réserves, sans rien annuler. La seule chose que l'annulation ajoute, c'est l'habillage. » — Q. Vandeweyer, exchange of 24–28 August 2026. Text supplied to us; the thread is public but we could not fetch it to verify the wording.

Survives checking — The sharpest line in the exchange. Demonstrable rather than merely assertable, and this note demonstrates it: the reserve lever and the cancellation lever are independent inputs to the same model. Set the amount cancelled to zero and the reserve share to 100% and the revenue is identical, to the euro — **€34.56bn** across the euro area either way. Whatever one thinks of taxing banks, and this note takes no view, cancellation is not the instrument that does it. Read the verdict as a verdict on that proposition, which the model settles, and not on the phrasing — the phrasing is the part we cannot check.

« Une taxe sur les banques se répercute. Et pour une grande partie des banques françaises — Crédit Agricole, Crédit Mutuel, BPCE — les actionnaires sont les clients eux-mêmes. Cela fait beaucoup de monde, pour une opération sans victime. » — Q. Vandeweyer, exchange of 24–28 August 2026. Text supplied to us; the thread is public but we could not fetch it to verify the wording.

Survives checking — Right, and stronger than he claimed. Verified, and the numbers exceed what the argument needs. Those three are cooperatives owned by their customer-members: **about 31 million sociétaires** between them — Crédit Agricole 12.3m, BPCE 9.6m, Crédit Mutuel over 9m — in a country of 68 million, and the mutual sector holds more than 60% of French household and corporate deposits and loans. Both figures are Coop FR's, which puts the sector at 31.03 million clients-sociétaires and is why this verdict does not depend on the disputed text at all. In that sector the shareholder *is* the depositor. One honest qualification: parts sociales pay a capped regulated dividend, so the burden lands on retained earnings, capital ratios and pricing rather than on a dividend cheque.

« L'inflation n'est pas un problème si les salaires suivent. » — The wider debate, recurring.

Does not survive — False, and it is the most consequential error in this note. Neither half survives measurement. **Wages did not follow:** INSEE puts the real average net private-sector wage at **−1.3%** in 2022 and **−1.0%** in 2023, recovering only **+0.8%** in 2024 — purchasing power barely back to its 2019 level after five years. The implied pass-through is 0.59 and 0.66, not 1. **And even a wage that did follow would not make the episode neutral,** because the average conceals the incidence: at the October 2022 peak the ECB measures lower-income households facing inflation 0.55 points higher than affluent ones, and the cost of 2022 inflation at **12.28% of current income for the lowest quintile against 5.69% for the highest**. The next section prices the third thing it hides — the loops that run back through the debt.

« De toute façon l'inflation efface la dette. » — The wider debate, recurring.

Half-right, or right only under unstated conditions — Half-true in a way that matters: inflation does erode the debt, but only under conditions nobody states. It does, and this note models it rather than denying it. A 2-point shock lasting three years takes the debt ratio **3.02 points lower by year 3**. Then three loops run the other way: **€3.11bn a year** of extra indexation on the **€311bn** of indexed OATi and OAT€i principal, which never comes back; the rate response, which on the consolidated perimeter costs **€7.27bn in the first year alone — 2.4×** what the same module returns on the State's own perimeter (**€3.04bn**), and **2.3×** the Senate's published **€3.2bn**, because the official perimeter counts the Eurosystem's holdings as long-term debt when they are overnight reserves; and the refinancing of the stock at the new rate, which persists for a full maturity after the inflation has gone. On a standard central-bank reaction the gain is **exhausted by year 9**, the ratio is **0.85 points higher** by year 15, and the extra bill over those fifteen years is **€251bn**. Inflation erases the debt only if the central bank declines to act — and then the whole of the gain has come out of real wages.

10

"Inflation is fine if wages keep up"

This is the most dangerous sentence in the debate, because the first half is testable and false and the second half describes a loop that runs in both directions.

The claim comes in two versions. The soft one says inflation is a tolerable price for erasing debt provided wages follow. The hard one says inflation *is* the erasure — that a State with its own currency never repays, it inflates. Neither is stupid, and the second is closer to how public debt has actually been retired historically. But both leave out the return leg, and in the French configuration the return leg is large, published and easy to find.

The wage half is a measurement, not a model

France ran the experiment between 2021 and 2024.

REAL AVERAGE NET PRIVATE-SECTOR WAGE, PER FTE	CHANGE
2022	−1.3%
2023	−1.0%
2024	+0.8%
Cumulative 2022–24	**−1.5%**
For reference: annual average 1996–2019	+0.6%

INSEE's own summary of the rebound is that « Ce regain en 2024 permet à peine d'atteindre le niveau de 2019 en euros constants ». Divide each year's shortfall by that year's excess inflation and the implied pass-through is **0.59** in 2022 and **0.66** in 2023. That is the number the model uses as its default. It is not an assumption; it is what France did.

In fairness to the other side, the IMF's study of 79 wage-price episodes across advanced economies — the first identified in 1973 and the last in 2017; the 1960s belong to its separate 100-episode manufacturing sample — finds that such episodes rarely turn into sustained spirals, and nominal wage growth and inflation tended to stabilise afterwards rather than accelerate. That paper is usually cited against spiral panic and it is right to be. Across all the episodes it also finds real wage growth *broadly unchanged* afterwards, which means the level loss is not recovered: it is levelled off from a lower base.

The strongest form of the other side goes further than that, and it deserves to be stated rather than dodged. In the sub-sample that matches recent conditions — falling real wages with tight labour markets, which is precisely the 2021–23 configuration — the same paper finds that "similar past episodes were followed by a period of declining inflation while nominal wage growth increased thus allowing real wages to catch up". That is the best available case for "wages keep up", and it is a serious one. Our answer is that France ran that experiment and the French series is the test: real wages did not regain their 2019 level until 2024, and INSEE's own verdict on the rebound is that « Ce regain en 2024 permet à peine d'atteindre le niveau de 2019 en euros constants ». Catching up after five years is a different claim from keeping up, and only the second one makes the inflation costless.

And an average that did keep up would still not make it neutral

Inflation is not a single rate. At the October 2022 peak the ECB measures euro-area low-income households facing an effective inflation rate **0.55 points higher** than affluent households, because energy and food weigh more in their basket; by November 2023 the gap had reversed as services inflation took over. Over 2022 as a whole the ECB puts the cost of inflation at **12.28% of current income for the lowest quintile against 5.69% for the highest**.

A pass-through of 1.0 *on the average* is consistent with a large transfer inside the average. Anyone who says wages will keep up is making a claim about the mean and presenting it as a claim about everyone.

The debt half: one gain and three loops

One arrow reduces the ratio. Three return it. Signs below are the effect on the debt ratio.

PER POINT OF EXTRA INFLATION	SIZE
– the denominator: nominal GDP accelerates	+1 pt of nominal GDP
+ indexation on €311bn of indexed OATi and OAT€i principal	€3.11bn a year
+ the rate response, consolidated perimeter	€7.27bn in year 1
+ refinancing of the stock at the new rate	~9 years

The indexation uplift accrues to principal and is never given back. The refinancing loop persists a full weighted-average maturity after the inflation itself has gone.

The base for the indexation loop is the **indexed** principal of the OATi and OAT€i block, which is what the uplift actually accrues on: the Agence France Trésor's *Bulletin mensuel* reports « dont titres indexés 311 » at 30 June 2026, so one point of inflation is worth **€3.11bn** a year. An earlier version of this note used €240.79bn, the nominal sum of the AFT fiches titres — €56.796bn of OATi plus

€183.994bn of OAT€i — which leaves out the accrued indexation itself and understates the base by more than a fifth.

Two things follow. The Assemblée nationale finance committee's rule — « une variation durable de 1 point du taux d'inflation entraîne [...] de l'ordre de 2,5 milliards d'euros de la charge d'indexation annuelle » — was stated on a €262bn stock at 31 May 2023, and €262bn times a point is €2.62bn, so the committee's method and ours agree and differ only by three years of accretion. That accretion is the second point: the indexed stock has not been *reduced* by redemptions since 2023, it has **risen**, because the uplift accretes into the principal rather than being paid away. And the correction runs against this note's own conclusion. The indexation loop is about 29% larger than we previously showed; taken together with the index-linked repricing fix flagged further down, the module it feeds is *milder* than the one this note used to carry — the inflation gain now lasts a year longer, the ratio ends 0.85 points higher at fifteen years rather than 1.15, and the extra bill is €251bn rather than €266bn. We would rather say so than leave it buried.

Run a 2-point shock lasting three years against a standard central-bank reaction of 1.5 points of policy rate per point of inflation:

DEBT RATIO, SHOCK VERSUS NO SHOCK	POINTS OF GDP
Peak gain, year 3	+3.02
Year 9 — the gain crosses zero	0.00
Year 15	−0.85
Real wage, permanent loss (per cent)	−2.38

The gain is real and then it is gone. The extra bill over fifteen years is €251bn.

On a like-for-like perimeter the published rate sensitivity understates the true one by a factor of about 2.4. The Senate's budget report gives France's exposure to a permanent 100 basis-point rise as **€3.2bn** after one year, €23.5bn after five and €33.5bn after nine. Those are the right figures for the perimeter they use — the State's own negotiable debt, where 7.6% reprices within a year. On the consolidated perimeter, where the Eurosystem's €600bn is correctly counted as the overnight reserves that paid for it, **26.1%** reprices within a year and the first-year cost is **€7.27bn**. Which multiple that is depends on what it is set against. Like for like — the same module run on the State's own perimeter, which returns **€3.04bn** — it is **2.4×**; against the Senate's published €3.2bn, built on a different perimeter by a different method, it is **2.3×**. The like-for-like ratio is the one to quote, because comparing a consolidated figure with a differently constructed one is not a comparison of like with like. The construction also lines up with the observable rather than resting on a separate method: the block that reprices within a year is €727bn of the €2,789.68bn consolidated stock, and €727bn at one per cent is €7.27bn. Not *exactly*, though: 26.1% of €2,789.68bn is €728.1bn while the module returns €726.8bn, so the two constructions agree to within the rounding of the percentage — about €1bn on €727bn. The €7.6bn we used to quote came from a third construction and has been dropped. This is the same finding as the maturity section, arriving from the other direction. Cancellation would make that exposure permanent.

The configuration in which the claim is true — and why nobody can choose it

Set the central-bank response to zero and the wage pass-through to 100% and the model agrees with the claim exactly: the debt is inflated away and wage-earners are held whole. That is not a trick. It is the claim stated precisely, and it is worth stating precisely because three things then follow that the model cannot draw for you.

First, in that configuration the inflation does not stay where you put it. Full indexation with no policy response is the one setting in which the wage-price mechanism the IMF finds rare becomes likely, because it is the setting its 79 episodes did not have.

Second, the bond market prices the reaction function rather than the current rate, so a central bank known not to respond is paid for in term premium — and 28 basis points is all it takes to erase the headline gain from cancellation.

Third and decisively, France does not own the dial. The response coefficient is set in Frankfurt for twenty countries under a price-stability mandate written into Article 127(1) TFEU. Every version of “inflation will handle it” is a plan that requires the ECB to abandon its primary objective — which is the same institutional obstacle the cancellation proposal runs into, arriving once again from the other direction.

What this module does not do. It holds the primary balance and the stock constant, so new deficits are not issued at the higher rate. That is a deliberate understatement: on the State's own perimeter the module returns €3.04bn at one year against the Senate's €3.2bn, and €15.2bn and €24.4bn at five and nine years against their €23.5bn and €33.5bn, and the gap is precisely the deficit-financed growth of the stock. It runs against this note's own conclusion — the true cost of the rate response is larger than shown.

It also treats the index-linked block correctly rather than twice. Those bonds pay a *real* coupon, so they reprice at *(taylor−1)·M* and not at *taylor·M*: charging them the full nominal move on top of the indexation uplift counts the same inflation in two places, and an earlier version of this module did exactly that. Correcting it is most of the difference between the results above and the ones this note carried before.

It says nothing about output — there is no Phillips curve, no output gap and no exchange rate, and an inflation that raised real growth would help through the denominator in a way not modelled here. And wage pass-through is a single number applied to an average, which compresses exactly the distribution the ECB evidence above shows matters.

11

The arguments, scored

Both camps carry claims that do not survive contact with the balance sheet. Sorted by who makes them, not by which conclusion they support.

For cancellation

"The State pays interest to the Banque de France and gets it back, so this debt is already fictitious."
— Pigasse, 23 August 2026; echoed by Mélenchon. *True of the soundbite — and its own authors*

reject it. The consolidation is right, and this model confirms it to the euro. But it proves the operation is empty, not free, and the 2020 tribune calls this framing "confondre l'essentiel et le dérisoire".

"A debt does not reduce to its interest charge. Cancelled, the principal need never be repaid." — the tribunes, 2020 and 2021. *The real argument, and this model prices it.* Worth €6.3bn a year in phase 2, an order of magnitude more than the coupon. But it is a term premium, and it is paid for in permanent, unexitable rate risk.

« Si la banque centrale annule une créance qu'elle détient, aucun fardeau n'est transféré sur quiconque puisque son passif n'est exigible par personne. » — *Le Monde*, 26 May 2020. *Wrong — the load-bearing error.* Reserves are owed to commercial banks, total €507.5bn at the Banque de France alone, and reprice overnight. In fairness: when the sentence was written the deposit rate was −0.50%, so those reserves were earning the Eurosystem money. The claim was cash-true then and became false in July 2022. The general principle was always wrong, and the sentence is still being quoted.

"A central bank can run with negative equity without difficulty." — the tribunes; Couppey-Soubeyran; Lalucq. *Half true, stated too flatly.* Ten of thirty-two **emerging-market and small-open-economy** central banks did so between 2002 and 2021 with price and financial stability maintained (BIS Bulletin 68). The qualifier is material: the sample is not the one a Eurosystem national central bank belongs to. But a Eurosystem national central bank cannot create euros unilaterally, and *Weiss* ¶162 is explicit that primary law provides no loss-sharing rule. A €537bn write-off takes Banque de France equity from +€283bn to −€253bn. One correction the anti camp usually gets wrong, though: Article 32.4, second subparagraph, does let the Governing Council indemnify a national central bank "in exceptional circumstances for specific losses arising from monetary policy operations", and the 2020 tribune cites it by number. It is a real route needing no treaty change — but it needs the Governing Council, it was written for accidents rather than voluntary waivers, and the German Constitutional Court blocks any retroactive re-cut of risk-sharing.

"Cancellation is not expressly prohibited by the treaties." — AFP quoting the signatories; Institut Rousseau. *Technically true, practically wrong.* The harder obstacles are Article 127(2) — the ESCB has four enumerated tasks and waiving a claim is none of them — and the Court's own reasoning in *Gauweiler* ¶118 and *Weiss* ¶146, on the reading that hold-to-maturity was lawful *because* it "does not imply that the ESCB waives its right to payment of the debt". The hedge matters and we state it rather than bury it: ¶118 also says the possibility of holding to maturity "does not play a decisive role in this regard", so this is an observation the Court makes and not a condition it lays down.

"Precedent: the 1953 London Agreement wrote off two-thirds of German debt." *Wrong analogy.* London restructured external debt owed to foreign creditors in currencies Germany could not print, after a war. This is a debtor cancelling a claim held by a subsidiary it owns outright, in a currency it shares with nineteen partners who have not agreed.

« cette dernière pourrait même les indemniser pour le faire (article 32.4 du même protocole) » — the *Le Monde* tribune, 26 May 2020, restated by Dufrêne in the exchange of 24–28 August 2026 in its strongest form — that the Governing Council may compensate a national central bank's losses by any « moyen approprié », meaning by creating money if need be. The tribune is public and the restatement is only reported to us, so the verdict is on the tribune. *Wrong — the clause says the opposite.* We score the printed tribune, because it is a text anyone can read. It says the *form*, not the means; the sentence continues past the semicolon and names pooled monetary income, i.e. the other national central banks, as the funding source. Article 32.4 is the mutualisation clause, and this model prices it: €50.5bn absorbed by partners, €16.6bn by Germany.

"Reis's Ponzi? The dynamic already exists without cancellation — reserve interest is already paid by crediting reserve accounts. End remuneration and the snowball goes with it." — Dufrêne. Exchange of 24–28 August 2026; text supplied to us, the thread is public but we could not fetch it to verify the wording. *Right that the dynamic pre-exists, wrong that cancellation is neutral to it.* At 2.25% against 2.79% nominal growth the reserve stock shrinks either way. But cancellation removes the asset income that offsets the reserve bill and lowers the critical policy rate by 0.72 points — from 3.74% to 3.02% excluding the Banque de France's TARGET2 liability, from 2.81% to 2.09% including it, the same shift on either perimeter. The deposit rate stood at 4.00% for nearly nine months, to 11 June 2024.

"Over €300bn paid to the banks in recent years, created ex nihilo. That particular printing press, curiously, does not bother you." — Dufrêne. Exchange of 24–28 August 2026; text supplied to us, the thread is public but we could not fetch it to verify the wording. *Right on the euro-area number.* Computed from the ECB's deposit-facility series against the daily rate path, the Eurosystem paid roughly **€362bn** on reserves between 27 July 2022 and 28 August 2026, about €45bn a year now. Two qualifications the rhetoric skips: France's share is around €70bn, not €300bn; and over 2014–22 the same banks paid the Eurosystem *negative* interest on the same balances, roughly €40bn cumulatively.

Against cancellation

"The interest saved is offset by the central-bank profits forgone." — Bénassy-Quéré, DG Trésor, 2020; Blanchard, 2026; Blot & Hubert, OFCE. *Right, and quantified here:* €6.47bn saved, €5.92bn forgone, €0.54bn residual. One refinement: the offset is not quite complete, because 10.5% of the portfolio sits on the ECB's books and its income is pooled. That residual is the whole net gain, and it is a transfer from partners rather than a saving.

"There is no European consensus; it is a red flag for Germany and the Netherlands." — Ecalle; Couronne; Martucci. *Right, and probably decisive.* The model shows the veto is rational rather than doctrinal: other member states absorb €50.5bn, of which €16.6bn falls on Germany. And the German Constitutional Court's May 2020 PSPP judgment holds that a *retroactive* change to the risk-sharing regime is incompatible with Article 79(3) of the Basic Law. Mutualising the loss is not merely unpopular in Germany; it is constitutionally blocked.

"Cancelling the debt means not repaying the French people." — Lescure, 2026; the Government, 2020. *False as stated.* The proposal has excluded private holders since the very first tribune of 26 May 2020, which is explicit about not touching banks, insurers, pension funds or savers. The defensible version is the signalling argument — that repudiating one class of creditor changes what the others infer — and it is not this one.

"Risk of hyperinflation." — Morlet-Lavidalie, Rexecode. *Wrong mechanism.* Cancellation creates no new money; the money was created at purchase, and a write-off leaves the monetary base untouched. The defensible channel is expectational: in Cochrane's framework a write-down is inflationary only if read as news that future primary surpluses will be lower, which is a claim about the regime, not about the operation.

"It would have no effect at all." — Blanchard, 23 August 2026. *Right on the cash, but it concedes too much.* Cochrane's reply the next day is well taken: "no effect" treats the central bank's assets as irrelevant, but assets are exactly what let a central bank drain reserves to stop inflation. De Grauwe made the same point in 2021 — after cancellation the ECB can no longer shrink the money base by selling, and must issue its own interest-bearing liabilities instead.

"We must repay our debts; our children will pay." *Wrong, and it keeps losing the argument.* Public debt is rolled, not amortised; the constraint is the relation between the interest rate and growth, and the market's willingness to roll. Deploying the household analogy is precisely what gives the cancellation case its opening, because the public correctly senses the analogy is false and then over-generalises.

"If the objective is to tax the banks, cancellation is useless — the Banque de France need only stop remunerating reserves, cancelling nothing. All the packaging adds is packaging." — Vandeweyer. Exchange of 24–28 August 2026; text supplied to us, the thread is public but we could not fetch it to verify the wording. *Right, and it is the sharpest line in the exchange.* This model demonstrates it mechanically rather than asserting it: the reserve lever and the cancellation lever are independent. Set the amount cancelled to zero and the reserve share to 100% and the revenue is identical, to the euro.

"A tax on banks is passed through. And for much of French banking — Crédit Agricole, Crédit Mutuel, BPCE — the shareholders are the customers themselves." — Vandeweyer. Exchange of 24–28 August 2026; text supplied to us, the thread is public but we could not fetch it to verify the wording. *Right, and stronger than he claimed.* Those three are cooperatives owned by their customer-members: about **31 million sociétaires** between them, in a country of 68 million, and the mutual sector holds more than 60% of French household and corporate deposits and loans. Both figures are Coop FR's, which puts the sector at 31.03 million clients-sociétaires. One qualification: parts sociales pay a capped regulated dividend, so the burden falls more on retained earnings, capital ratios and pricing than on a dividend cheque.

"If the loss exceeds the present value of seigniorage, the central bank is insolvent. There is no free lunch." — Vandeweyer, applying Reis's intertemporal criterion. Exchange of 24–28 August 2026; text supplied to us, the thread is public but we could not fetch it to verify the wording. *Right that the assets matter — but the arithmetic is a knife-edge, not a verdict.* Net worth goes from +€283bn to –€253bn and solvency then rests on €6.7bn a year of banknote seigniorage, breaking even at a 2.64% net discount rate. The operation puts the Banque de France on the boundary of intertemporal solvency, not over it — and the seigniorage that rescues it is proportional to the policy rate, so it vanishes at the zero bound and peaks exactly when the reserve bill peaks.

12

Verdict

On the coupon, the sceptics are right and the margin is not close: **€6.47bn saved, €5.92bn forgone, €0.54bn left — and that residual is a transfer from German, Italian, Spanish and Dutch taxpayers, not a saving.** Twenty-eight basis points of spread widening erases it — twenty-one on matched perimeters. The proposition that this operation is costless and simultaneously creates fiscal room is internally inconsistent, and the movement's own founding text says so.

On the principal, the proponents have the better of it, and the current round of the debate is not engaging with their actual argument. Cancellation would spare France the refinancing of €600bn and leave it funded overnight, worth around €6.3bn a year at a 125bp term premium. But that is a term premium, and its price is that France's debt service becomes permanently hostage to the ECB's policy rate, with no maturity date and no exit. This is a duration decision. It should be argued as one — against the alternative of simply shortening the debt through the Agence France Trésor, which is available today, reversible, and does not require nineteen other governments to agree.

And the one lever that would make it pay in cash — ending reserve remuneration — costs France more than it earns, because French banks hold more reserves than France's capital key entitles it to.

On solvency, the exchange that followed produced a cleaner answer than either party claimed. The flow does not explode at today's rates, so the Ponzi worry is not live; but cancellation moves the trigger rate down by 0.72 points — to 3.02% excluding the Banque de France's TARGET2 liability, to 2.09% including it — and the deposit rate was last above the 3.02% trigger on 17 December 2024, having stood at 4.00% for nearly nine months to 11 June 2024. The shift is the robust number; the level is a choice of perimeter. The stock question has no answer at all independent of the discount rate chosen. The operation puts the Banque de France on the boundary of intertemporal solvency and leaves it there.

On inflation, the claim that it is harmless provided wages follow does not survive its own evidence. French real wages fell 1.3% and 1.0% in the two inflation years and recovered 0.8% in the third; the measured pass-through was 0.6, not 1; and the cost fell twice as heavily on the bottom of the income distribution as on the top. On the fiscal side a 2-point three-year shock buys 3.02 points of debt ratio and gives them back by year 9, ending 0.85 points higher at year 15 for an extra €251bn of bill, because €311bn of the debt's principal is indexed and 26.1% of the consolidated stock reprices within a year, which puts the first-year cost of the rate response at €7.27bn — 2.4 times the same module's State-perimeter figure of €3.04bn, and 2.3 times the Senate's published €3.2bn. Inflation erases debt only when the central bank declines to act — and then the whole of the gain has come out of real wages.

None of this settles whether €600bn of investment is worth making. It settles only that cancellation is not a way of paying for it.

Annex A — the model

13

The identity

Notation: B bonds held outside the public sector; B_{cb} bonds held by the central bank; V reserves at rate i_v; H banknotes; i the average bond rate; S the primary surplus.

$$
\begin{aligned}
&\text{Treasury:} && B + B_{cb} = (1+i)(B + B_{cb})_{-1} - S - D \\
&\text{Central bank:} && B_{cb} = (1+i)B_{cb,-1} + \Delta V + \Delta H - i_v \cdot V_{-1} - D
\end{aligned}
$$

Subtract. B_{cb} and the remittance D both cancel. With $L \equiv B + V + H$:

$$
\begin{aligned}
L &= (1+i) \cdot L_{-1} - S - \sigma \\
\sigma &= i \cdot H + (i - i_v) \cdot V
\end{aligned}
$$

σ is seigniorage in the broad sense: currency seigniorage $i \cdot H$, which is real but small, plus reserve seigniorage $(i - i_v) \cdot V$, which is approximately zero in a floor system and **negative when the curve inverts** — which is exactly what produced the central-bank losses of 2022–24.

B_{cb} appears nowhere. **Cancellation can therefore change the consolidated position only through one of five routes.**

A — the path of reserve remuneration. Priced. A genuine resource transfer, and a tax on banks.

B — the path of primary surpluses. Flagged, not estimated. The inflation channel, and entirely a signalling effect.

C — the discount factor and convenience yield. Priced, as the spread lever.

D — failure to offset the lost remittance. Flagged. Benigno–Nisticò: neutrality holds only if the Treasury offsets the lost remittance one-for-one with taxes.

E — the accounting perimeter. Priced, and labelled as presentation. Maastricht debt excludes the central bank, so the ratio falls about twenty points while no consolidated quantity changes.

14

The two phases

Phase 1, while the cancelled bonds would still have been outstanding (w = 6 years):

$$\pi_1 = c \cdot X - \rho \cdot [c \cdot X \cdot (\alpha + (1-\alpha) \cdot k)] + \tau\text{-terms} - s \cdot (N - X)$$

Phase 2, thereafter:

$$\pi_2 = (r_m - i_v) \cdot \min(X, V_{fr}) + \tau\text{-terms} - s \cdot (N - X)$$

where `X` is the amount cancelled, `c` the average coupon, `α` = 89.5% the own-risk share, `k` = 19.77% the euro-area capital key, `ρ` the offset lever, `r_m` the refinancing rate, `s` the spread widening, `N` negotiable debt, and `V_fr` the Banque de France's reserve liability.

Present value over horizon `T` at rate `d`: $PV = a(1,w)\cdot\pi_1 + a(w+1,T)\cdot\pi_2$.

The identity check the model runs on every parameter set: the coupon the Treasury stops paying must exactly equal the income the Eurosystem stops earning — France's share plus its partners'. $c\cdot X = c\cdot X\cdot(\alpha + (1-\alpha)k) + c\cdot X\cdot(1-\alpha)(1-k)$. It holds to 1e-9 across 309 randomised parameter sets, and the Python reference implementation and the JavaScript port used by the website agree field-for-field to the same tolerance across 17,922 comparisons.

15

What this model does not do

It does not model the signalling channel. The largest potential effect is exactly the one no published paper models for this operation. It is exposed as the spread lever and set to zero by default so the model never assumes the answer.

It does not model general equilibrium. No output, inflation or exchange-rate response. This is a flow-of-funds and balance-sheet model, which is the right tool for "who ends up with the money" and the wrong tool for "what happens to GDP".

It prices the coupon the central bank loses, not the remittance freeze. A €537bn hole means the Banque de France retains all profit for a generation, so the State loses the entire remittance stream, not just the coupon on the cancelled book. This cuts against cancellation, so the omission is conservative in the direction that matters — but the ledger is not complete without it.

The reserve tax leaks tax revenue we do not count. At the default incidence, French households lose about €5.7bn of interest income; the flat 30% levy on the non-regulated share is roughly €1.1bn the model does not subtract. €608bn of Livret A and LDDS carries an administered rate and cannot transmit depositor incidence at all.

Two perimeters do not quite match. The €600bn numerator is the ECB's French public-sector total, agencies and regions included; the €2,882bn denominator is the Agence France Trésor's central-government negotiable debt. The 26.8bp this note used to quote was not a matched calculation at all: it narrowed the denominator to the État-only €469bn while leaving the numerator on the wider €600bn public-sector coupon. Matched on both sides — the coupon on €469bn, over the €2,412.91bn of negotiable State debt then left standing — the break-even spread is **21bp** rather than 28.3bp. The companion figure needs no correction, because its two versions are two perimeters rather than a right and a wrong answer. The same block of bills and reserves — €727bn — is **26.1%** of the €2,789.68bn consolidated stock this note uses throughout, which is the figure in the tables and the parameter register; and it is **24.9%** of the €2,920.44bn stock you get if the Eurosystem slice removed is the État-only €469bn instead of the wider €600bn. Both are right on their own perimeter, and neither supersedes the other. The debt-ratio calculation is unaffected, because Maastricht general-government debt is the right match there.

The inflation module holds the debt stock and the primary balance constant. New deficits are not issued at the higher rate, so the rate cost is understated. On the State's own perimeter the module returns €3.04bn at one year against the Senate's €3.2bn, but €15.2bn and €24.4bn at five and nine years against their €23.5bn and €33.5bn. The gap is the deficit-financed growth of the stock, and it runs against this note's own conclusion — the true cost of the rate response is larger than shown.

The average coupon is derived, not published. 1.078% is computed from the ECB's own 2025 accounts. The Banque de France's whole-book figure is 0.68%, and since that book includes higher-yielding covered and corporate bonds while several 2015–21 sovereign vintages were bought at negative yields, the true French government number probably sits *below* 0.68%. 1.078% is conservative against this note's own conclusion; at 0.68% the break-even spread falls to 18bp.

Annex B — parameters

PARAMETER	VALUE	TYPE	SOURCE OR DERIVATION
Eurosystem holdings, France	€599.76bn	Observed	ECB PSPP + PEPP, amortised cost, 31 Jul 2026
Own-risk share	89.5%	Derived	ECB Annual Accounts 2025: the ECB holds 10.00% of the PSPP and 11.22% of the PEPP government books
Average coupon	1.078%	Derived	PSPP €2,022m ÷ €179,395m = 1.127%; PEPP €1,481m ÷ €147,468m = 1.004%; weighted 360.2/239.5
Weighted average maturity	6.38 y	Observed	PSPP 6.11, PEPP 6.79
BdF liabilities to credit institutions	€507.53bn	Observed	ECB disaggregated financial statement, item 2, 3 Jul 2026
Eurosystem total, same item	€2,368.78bn	Observed	same
Euro-area minimum reserves	€173.861bn	Observed	maintenance period 17 Jun–28 Jul 2026, remunerated at 0% since 20 Sep 2023 and so outside the taxable base. France's pro-rata share is an estimate of €37.23bn; across the €31–46bn the Banque de France's current-account data allow, France's share of the remunerated base runs 21.0–21.7%, above the 19.77% capital key at either end
Deposit facility rate	2.25%	Observed	raised 25bp effective 17 Jun 2026
France's euro-area capital key	19.7682%	Observed	from 1 Jan 2026, after Bulgaria's entry; governs Art. 32.5 pooling
Indexed principal, OATi and OAT€i	€311bn	Observed	AFT *Bulletin mensuel*, « dont titres indexés 311 » at 30 Jun 2026. The base the uplift accrues on, so a point of inflation is €3.11bn a year. Not the €240.79bn nominal sum of the fiches titres, which omits accrued indexation
French Maastricht debt	€3,536.07bn	Observed	Eurostat, 2026Q1

PARAMETER	VALUE	TYPE	SOURCE OR DERIVATION
GDP	€3,004.27bn	Observed	four quarters to 2026Q1, matched to the debt quarter
Negotiable State debt	€2,881.91bn	Observed	AFT, 31 Jul 2026; average maturity 8y 163d
General government interest	€66.64bn	Observed	Eurostat, 2025. The series is historical only, so no forward path can be read out of it. On the State's own budgetary perimeter — narrower, and not comparable line for line — the Sénat's PLF 2026 report gives the debt charge as €58.0bn in 2026, above €70bn in 2027 and above €90bn in 2029
BdF payments to the State	€4.88bn/yr	Derived	average 2015–2019. No dividend since FY2021, but a €8.1bn profit in 2025 and €2.2bn paid to the State
BdF situation nette	€283.4bn	Observed	end-2025, dominated by gold and FX revaluation accounts; capital and reserves proper €11.4bn, general risk fund about €6.2bn
Six main French banking groups, net income	€39.8bn	Observed	ACPR, 2025. A post-tax figure, which is why the €10.6bn levy is a gross pre-tax cost equal to 26.6% of it and not a 26.6% fall in profits
Maximum effective corporate tax	36.13%	Observed	25% IS + 3.3% + the contribution exceptionnelle, LF 2026
Deposit-base erosion at full unremuneration	30%	**Assumption**	informed by McCauley & Pinter; nobody has estimated it for the euro area
Incidence split (depositors/ borrowers/ shareholders)	50/25/25	**Assumption**	Tucker calls incidence the open question; the evidence tilts to depositors
Permanent spread widening	0bp	**Assumption**	set to zero by default so the model never assumes the answer

Annex C — sources

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The interactive version of this model, where every lever above can be moved, is published separately. The Python reference implementation, the JavaScript port and the parity test that checks them against each other are available on request.