

There's just not enough debt

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The [FT has reported this morning](#) that:

Some 57 per cent of all outstanding German government bond debt with a maturity of more than a year now trades at yields below zero, according to Citigroup. Almost a third trades below minus 0.2 per cent, a rate below which the ECB has said it will not buy assets.

A shortage of German debt could eventually force a change of tactics by the ECB. It has already said it will buy bonds issued by agencies such as the KfW, the German development bank, but will this week review the list of agencies whose debt is eligible.

A number of observations follow. The first is QE cannot work if it is solely going to pump money into financial markets that cannot use it. This is what the negative interest rates reveal: there is no use for this money.

Second, it is obvious that long-term deflation is being built into pricing assumptions. It is assumed that there is no economic recovery in sight.

Third, there is a shortage and not a glut of debt for QE if other demands for government debt are to be met. I am aware that this is a German situation, but it is a scenario that could very easily be replicated and already is in Switzerland.

And last, all these suggest that a QE programme is wrong at this time. What is really required is an economic stimulus using interest free money that behaves as if it is an equity stake in the activities in which it is invested. That means [green QE is needed now](#), and not QE, precisely because green QE creates the demand for the money at the same time as the money is created. And that is what is really required.