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Yield shockwaves amid the 2025 German debt brake reckoning

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Abstract

Amid heightened uncertainty surrounding the 2025 German elections, media became a platform through which markets glean fiscal policy signals from political debates relevant for pricing long-term bonds. We look at how financial markets price evolving fiscal narratives in real time, showing that higher local media coverage is associated with increases in German real yields, rather than inflation expectations. This pricing pattern extends to some other Eurozone bonds, producing a divergence in nominal yields driven by market pricing dynamics and conventions rather than fundamentals. This result highlights a key policy challenge for the Eurozone: how to separate temporary, market-driven movements in sovereign yields from genuine financial fragmentation. Domestic political noise, as amplified through media coverage, can be associated with yield co-movements across Eurozone countries that appear disconnected from country-specific fundamentals, complicating the diagnosis of whether observed yield divergence warrants policy intervention.

JEL: D80; E44; G14

Keywords: fiscal policy; media coverage; financial fragmentation; Eurozone

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1. INTRODUCTION

While fiscal policy is typically forged in national parliaments during lengthy debates, financial markets often display swift responses to interim media coverage, news developments, and even unverified rumours about upcoming policy changes. Tension is most acute during elections, when media becomes a critical platform through which markets glean policy signals from political discourses and reform proposals ahead of any formal decisions. What may amplify this mechanism within the Eurozone is that, despite nationally determined fiscal policies, domestic political developments have the potential to generate important spillovers across its deeply integrated financial markets. How do sovereign yield dynamics respond to evolving fiscal narratives, as they are shaped and amplified by domestic media during periods of heightened political uncertainty? Through which main channel does the pricing of these narratives propagate across Eurozone bond markets? And what does the cross-country pattern of yield responses reveal about the nature of sovereign bond market integration in the Eurozone? These are the questions this paper sets out to address, using the 2025 German debt brake reckoning as a case study.

The German public opinion on the constitutional debt brake began to shift in early 2025 amid growing concerns over stagnating growth, immigration, geopolitical tensions, and the pressing need for significant investment in defence. Originally implemented in 2009, the debt brake was once lauded as a model for the Eurozone's fiscal response to the 2012 sovereign debt crisis; its removal holds wider consequences, given similar constraints enshrined in the constitutions of several other EU (e.g. Italy, France, Slovenia, the Czech Republic) and non-EU countries (e.g. Switzerland). A January 2025 survey by the German Council on Foreign

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Relations revealed a clear majority of Germans now supports amendments to the debt brake, marking a stark departure from prior fiscal orthodoxy.[1]

Discussions and rumours intensifying across German political and economic spheres began to move financial markets in early 2025; amid heightened policy uncertainty, media outlets provided a platform for sharing and amplifying these policy proposals well before any legislative action. As emphasised in Latifi et al. (2024), political debates offer valuable information about future government spending that markets embed in long-term bond valuations. After winning the February federal elections, the conservative alliance led by Friedrich Merz swiftly pushed through a constitutional amendment easing the German debt brake in March. In just three months, financial markets saw a substantial increase in long-term German yields, sending shockwaves across the entire Eurozone yield curve. This paper studies how bond markets priced the evolving fiscal narrative surrounding the debt brake reform in real time, as it was being constructed through media coverage in real time.

Our contribution is distinct from the recent literature that shows how media news can affect yields (see among many others Kim and Ochoa, 2023; O'Sullivan and Papavassiliou, 2025). In this paper we ask through which channels an unfolding fiscal narrative gets embedded in sovereign bond prices, and what that channel decomposition implies for cross-country spillovers. To do so, we offer a conceptual framework grounded in the standard nominal yield decomposition — real rates, inflation expectations, and pricing wedges — and develop testable hypotheses about how fiscal narrative pricing propagates, both domestically and across Eurozone sovereign bond markets. Identifying the active channel matters because it

[1] Survey results are available (in German) at https://dgap.org/de/forschung/publikationen/mehrheit-der-deutschen-unterstuetzt-aenderungen-der-schuldenbremse. Section A of our online Appendix provides a relevant timeline of the 2025 German relevant events in the political realm.

speaks directly to the nature of observed yield co-movements: spillovers driven, for example, by benchmark pricing conventions carry different policy implications than those driven by reassessments of country-specific fundamentals (see Chen et al., 2025). The timing of our contribution is important: the paper exposes market reactions to a policy reform that is probably the most important shift in European fiscal architecture in the last decades. Moreover, the high-frequency angle embedded in the media indicators and empirical approach we take here offer policy insights that are valuable in addressing market stress in real time.

The results we present point to a clear pattern. Domestically, media coverage of the debt brake debate is associated with increases in real yields rather than in inflation expectations, consistent with markets pricing a shift in the long-run fiscal stance through a risk-premium channel, as one would expect under a monetary-dominant regime with an active ECB. The spillover picture instead is more selective. French and Italian nominal yields co-move with German yields in response to the same media coverage, but their real yields do not, suggesting that cross-border transmission operated through benchmark pricing mechanics rather than any reassessment of country-specific credit or fiscal risk. We find the same results hold for Austria, but this pattern does not extend uniformly to other members, like Spain or the Netherlands, underscoring that the spill over is not a Eurozone-wide phenomenon and that its selective nature likely reflects differences in market liquidity, or how individual sovereign bonds are traded relative to the German benchmark. This heterogeneity stands as an empirical regularity that may warrant further empirical investigations.

Our findings carry a concrete policy implication, which we believe will remain relevant well beyond this episode. The German *fiscal bazooka*, as some media outlets have already dubbed

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it, is not a one-off event. The reform has durably altered Germany's fiscal trajectory, and markets will continue to price its evolving implications for years. Against this backdrop, our results highlight a diagnostic challenge for Eurozone policymakers: yield co-movements that superficially resemble financial fragmentation can arise from narrative-driven benchmark repricing, without any deterioration in country fundamentals. Distinguishing these transitory, market-driven dynamics from genuine market fragmentation is not merely an academic exercise — it bears directly on the activation thresholds and credibility of instruments like the ECB's new Transmission Protection Instrument.

To establish the analytical framework for our analysis, we briefly review the theoretical foundations underlying fiscal transmission and develop the two main hypotheses we test empirically. Our results provide an early account of market dynamics around what is likely to be a pivotal episode in Eurozone fiscal history. We also briefly discuss the broader policy implications of our findings which we hope contribute to ongoing debates on the design of Eurozone economic governance (see among others Pisani-Ferry, 2017; Stiglitz et al., 2020).

The rest of the paper is organised as follows. Section 2 first surveys the relevant literature, then presents our analytical framework and hypotheses. Section 3 describes our main results along with robustness checks and discusses their implications. Section 4 concludes.

2. ANALYTICAL APPROACH

In this section we briefly review the relevant theoretical mechanisms before introducing our conceptual framework that supports the hypotheses we put to test in the next empirical

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section. While financial markets are not constrained by theoretical constructs, theory offers us a disciplined framework for discussion.

2.1. Literature review

Within a single country, increases in nominal interest rates can arise for two distinct reasons: (i) a rise in real interest rates—for example because the risk premium increases so that required real returns on government debt rise—or (ii) a rise in inflation expectations, which increases nominal yields even if real rates are unchanged. In standard asset-pricing views (e.g., Barro, 1989; Barro & Sala-i-Martin, 1990), fiscal deficits raise sovereign debt and thus can raise risk premia and real rates; the higher real rates then translate into higher nominal rates (holding inflation expectations fixed). By contrast, in frameworks that emphasize the government's intertemporal budget constraint (e.g., Woodford, 1995), larger deficits can lower the expected path of future primary surpluses and thus raise inflation expectations, which directly raises the nominal interest rates.

A central distinction in this literature concerns the monetary-fiscal policy regime. Following Leeper's (1991) active-passive taxonomy, the conventional New-Keynesian environment assumes an active monetary authority that stabilises inflation and a passive fiscal authority that ultimately adjusts primary surpluses to ensure debt sustainability. In this configuration, fiscal announcements are more likely to influence real rates (including sovereign risk premia) than inflation expectations—though, in principle, they may still affect nominal yields through inflation expectations in alternative fiscal-dominant environments.[2] Given the institutional

[2] In classic fiscal-theory models (Schmitt-Grohé & Uribe, 2000; Leith & Wren-Lewis, 2013), the price level adjusts to ensure government debt is backed in present-value terms, allowing fiscal announcements to move inflation expectations. Early versions implied inflation and debt valuations that reacted too strongly to fiscal news. More

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configuration of the Eurozone—an autonomous ECB alongside nationally determined fiscal stances—it is natural to assume a monetary-dominant regime for our empirical analysis.

Beyond shaping domestic yield dynamics, these mechanisms have broader implications in a monetary union. Our empirical analysis draws on the extensive literature on cross-border spillovers in Eurozone sovereign bonds. When markets reassess a member state's fiscal outlook and its fundamentals (i.e. real-rate, risk-premium, or inflation-expectations) these revisions can propagate beyond borders across highly integrated financial markets. Prior studies identify multiple channels through which such spillovers occur. Some emphasize risk-premium adjustments (Hallerberg & Wolff, 2008; Beetsma et al., 2013) and monetary-policy accommodation (Bacchiocchi & Dragomirescu-Gaina, 2024), while others show that sovereign yields transmit shocks across borders even in the absence of contemporaneous changes in domestic fundamentals, reflecting common pricing mechanisms and high market integration (Gande & Parsley, 2005). Due to sovereign bond substitutability and arbitrage, yield movements in core benchmark issuers, like Germany, can spill over through portfolio rebalancing; in other words, movements in German bond markets are associated with yield changes across other member states via nominal pricing and benchmark effects, independently of their fundamentals (see Mudde et al., 2024; Arcidiacono et al., 2024; Chen et al, 2025).

Our analysis is also connected to a growing literature showing that media content, sentiment, tone and investor attention influence sovereign bonds and yield curves. Beetsma et al. (2013) show that news about policy developments affects sovereign yields across the Eurozone,

recent formulations (e.g., Cochrane, 2022) yield more moderate inflation responses while preserving fiscal influence on nominal yields.

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highlighting the role of information flows, rather than realized policy actions (see also Ehrmann et al., 2011; Monticini et al., 2011). Consoli et al. (2021) document that emotional content in macroeconomic news affects European bond yields. Negative or salient events typically attract disproportionate media attention, making news volume a useful proxy for the intensity of information flows reaching asset markets (see Tetlock 2007; more recently, Peress and Schmidt 2020; Born et al., 2023; Dragomirescu-Gaina et al., 2024; Baker et al., 2024). Other studies find that sovereign bond markets can be equally impacted by social media (see Dergiades et al, 2015; Carnazza, 2024). Our focus here is on traditional media news coverage, which represents a key platform through which markets glean fiscal policy signals from political debates that heat up especially during electoral periods.

2.2. Conceptual framework and hypotheses development

We can decompose nominal yields, y^N, as:

$$y^N = y^R + Exp(\pi) + \Psi \quad (1)$$

where y^R denotes real yields, $Exp(\pi)$ is expected inflation, while Ψ is a generic composite premium capturing liquidity and other pricing wedges that may be particularly relevant in the case of German bonds; this generic component can be linked to recent studies showing that yields on safe sovereign debt respond to shifts in issuance, or investor demand through changes in convenience yields and pricing wedges (see Chen et al., 2025).

In our decomposition, y^R captures the real-rate component of sovereign yields, encompassing expected real short rates, real term premia, and sovereign credit risk. By compensating

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investors for holding long-duration bonds, it reflects duration risk and broader fiscal narratives that shape expectations about the long-run equilibrium path of real interest rates.

To keep notation simple, we have ignored maturity, even though it is a central dimension of bond valuation. Yields and yield curves are typically modelled using a combination of latent and macroeconomic factors (see Ang and Piazzesi, 2003). Since for long-maturity yields the persistency of latent factors dominates, we look at yield changes to understand the underlying factors driving bond markets on a daily frequency. First-differencing isolates the high-frequency innovations while preserving the structure of relationship (1) but shifts attention to how changes in these components comove with fiscal-related news. With all terms in (1) expressed in first differences, we can develop our first testable hypothesis as follows.

Hypothesis H1 (yield pricing channels): When markets price evolving fiscal narratives in real time, changes in German long-term nominal yields will reflect either a real-rate pricing channel (H1a) or an inflation-expectations pricing channel (H1b).

H1a (real rate pricing channel): $\frac{\partial(\Delta y^N)}{\partial(News)} > 0$ and $\frac{\partial(\Delta y^R)}{\partial(News)} > 0$,

H1b (inflation-expectations pricing channel): $\frac{\partial(\Delta y^N)}{\partial(News)} > 0$ and $\frac{\partial(\Delta y^R)}{\partial(News)} \approx 0$,

where Δ denotes first differencing for nominal and real yields, denoted by y^N and y^R, ∂ is the derivative symbol, and $News$ is our media news proxy.

In line with the literature surveyed earlier we maintain a directional prior for how fiscal narratives are embedded in yields. Our empirical analysis exploits differences in high-frequency (i.e. daily) responses of nominal and inflation-adjusted (or real) yields to identify which pricing channel dominates in the data, without specifically decomposing each

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component mentioned in (1) above.[3] We note that focusing on a narrow time span (less than 4 months) serves to isolate the market impact of German political noise, but inherently limits data availability, as discussed in the empirical section.

The institutional configuration of the Eurozone — an autonomous ECB alongside nationally determined fiscal stances — further informs our priors. Under monetary dominance, markets are more likely to embed evolving fiscal narratives through real-rate and risk-premium repricing (H1a) than through inflation expectations (H1b), though the latter channel remains a theoretical possibility in alternative fiscal-dominant environments. H1 therefore allows the data to discriminate between these two pricing channels.

To capture how fiscal narrative pricing propagates across borders, rather than imposing a sovereign-risk interpretation *a priori*, we build on evidence that Eurozone sovereign bonds are priced relative to core benchmarks, with German bonds being the default. In this context, nominal yields may transmit shocks through liquidity, benchmark and relative-value channels even in the absence of changes in country-specific fundamentals (Gande & Parsley, 2005).

In this context, we conceptualise foreign yields as the sum of German benchmark yields and country-specific pricing components that may differ between nominal and real yields:

$$y_f^N = y^N + \Phi^N \quad \text{and} \quad y_f^R = y^R + \Phi^R \tag{2}$$

where the subscript f indicates the foreign yield counterparts of domestic nominal and real yields, Φ^N captures foreign nominal pricing spillovers (including foreign inflation compensation as well as benchmark, liquidity, relative-value effects), while Φ^R captures real-rate spillovers tied to fundamentals (including real rates, term premia etc.). Relating this back

[3] It is not our intention here to disentangle moves in nominal yields from changes in convenience yields and pricing wedges, as discussed in Chen et al., (2025) for example.

to equation (1), note that nominal spillovers combine real spillovers with foreign versus domestic differential components; formally, we have the following relationship holding:

$$\Phi^N = \Phi^R + Exp(\pi_f) - Exp(\pi) + \Psi_f - \Psi \quad (3)$$

where Φ denotes (nominal and real) spillovers, $Exp(.)$ denotes expectations, π is inflation, while Ψ captures other pricing wedges (foreign and domestic, as indicated by the subscript).

Hypothesis H2 (spillovers pricing channels): The cross-country propagation of fiscal narrative pricing can operate either through real-rate channels linked to fundamentals (H2a), or through nominal pricing channels associated with benchmark-driven repricing (H2b).

H2a (fundamentals-based real spillovers): $\frac{\partial(\Delta y_f^N)}{\partial(News)} > 0$ and $\frac{\partial(\Delta y_f^R)}{\partial(News)} > 0$;

H2b (benchmark-driven nominal spillovers): $\frac{\partial(\Delta y_f^N)}{\partial(News)} > 0$ and $\frac{\partial(\Delta y_f^R)}{\partial(News)} \approx 0$,

where $News$ denote the same local German news as in our previous hypothesis.

Intuitively, under H2b, foreign sovereign yields co-move with German benchmarks because bonds are priced relative to a common nominal reference, not because markets reassess country-specific fiscal or macroeconomic risks. Under H2b, spillovers should manifest as changes in sovereign nominal yields without corresponding changes in country-specific real yields—the signature of pricing conventions rather than fundamentals reassessment. This distinction is central to the policy interpretation of fragmentation in the Eurozone: it separates market-driven, potentially transitory co-movements from genuine shifts in country-specific fundamentals that may warrant policy intervention.

Finally, the volatile market and political context in early 2025 advise caution in drawing strong causal conclusions. The framework above is best understood as providing a disciplined basis

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for characterising which pricing channels dominate in the data, rather than definitively establishing the structural mechanism linking media attention to moves in yields. The empirical patterns we document are consistent with — and informative about — the hypothesis that financial markets are pricing evolving fiscal narratives in real time.

2.3. Data and methods

Major fiscal policy announcements are expected to impact sovereign bond markets, and long-dated bonds in particular. We look beyond short maturity yields, which are sensitive to monetary rather than fiscal policy shifts, to try instead capturing the long-term, structural changes in market reactions. We consider generic nominal yields for German sovereign bonds with maturities ranging from 5 to 30 years; since the difference between nominal and real yields is key to our hypothesis testing, we also include similar maturity yields for German inflation-linked bonds (hence, real yields).[4] To evaluate spillovers, we look at French and Italian bonds which are the largest two Eurozone sovereign bond markets in terms of notional outstanding; we also include a selected list of Eurozone sovereigns like Spanish, Austrian and Dutch bonds for robustness.

To build a proxy for media news, we draw on GDELT (i.e. Global Database of Events, Language, and Tone), which is an online archive set up with support from Google, designed to track global media coverage and analyse trends in news reporting. We count topic-specific news volumes in all local (i.e. German) media outlets that are covered in GDELT.[5] According to Boczkowski

[4] Germany currently has three inflation-adjusted bond issues with remaining maturities between 5 and 21 years. See section B in the Appendix for more details.

[5] Our measure of debt-related news is a simple count of media articles that include specific keywords, disregarding the tone (or sentiment) embedded in such news.

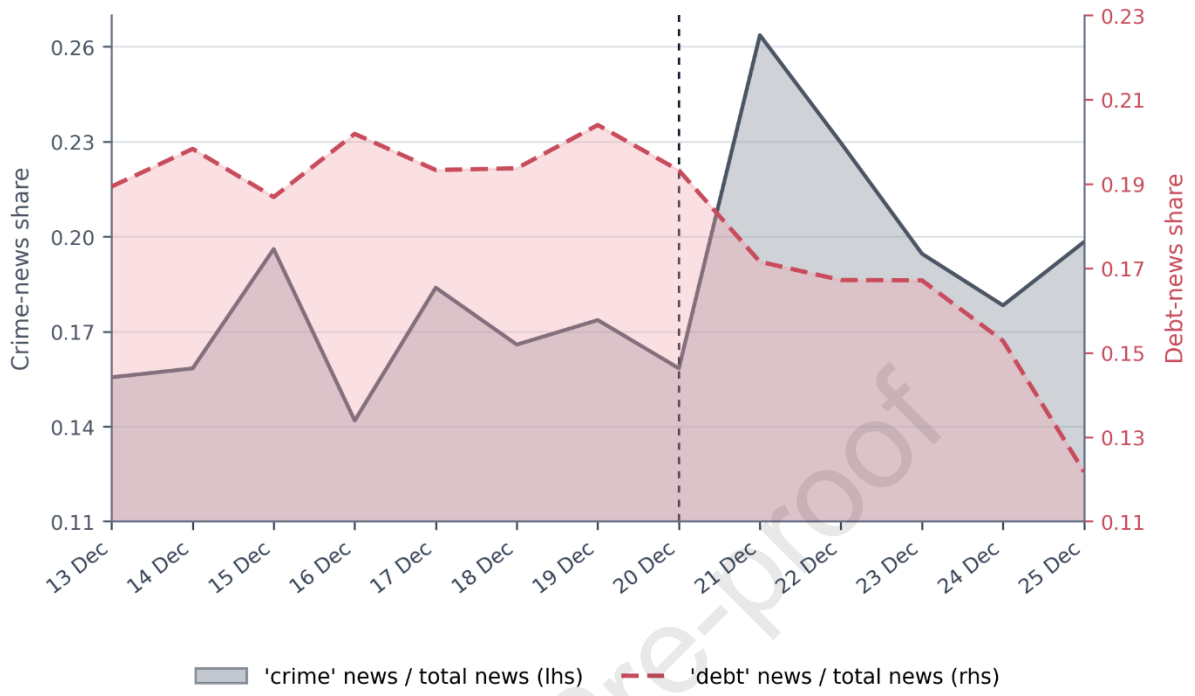
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and Mitchelstein (2013), people prefer to read news about sport, entertainment, weather and crime, which are largely event-driven. To sharpen identification, we leverage the exogenous variation in the volume of 'crime'-related news to estimate the relationship between 'debt'-related news and sovereign yields. Our instrumental-variable (or IV) strategy is designed to mitigate as much as possible, rather than fully eliminate, endogeneity concerns. It is well-established that a negative news attracts media attention, and we are not the first to use terrorism, crime, or high-impact events for identification purposes (see Baker et al., 2024). Figure 1 displays the German media topic shares around the Magdeburg Christmas market attack from 20 December 2024 — the deadliest most recent terrorist attack in Germany, with six fatalities and about 300 injuries.[6]

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[6] The 2025 election results were largely driven by the rise of the extreme right, which in turn is closely linked to the increase in migration fears and number of terrorist attacks. This observation implies our IV strategy may not fully satisfy the exclusion restriction if terrorist events influenced electoral expectations and coalition dynamics independently of media-space crowding. To address this concern, we emphasise that our identification exploits *daily* fluctuations in media coverage; the electoral-political channel operates at longer frequencies.

Figure 1: Daily German media news coverage, by topic, around the Magdeburg Christmas market attack

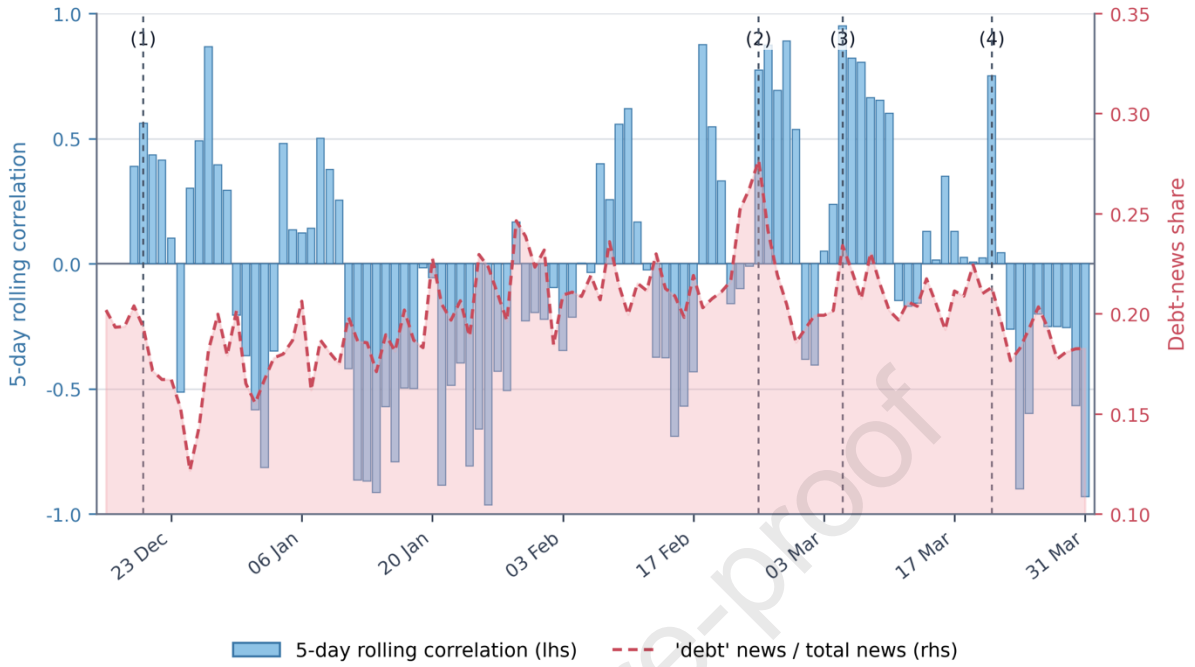


Note: Topic shares (for 'debt' and 'crime') in German total are based on news volumes extracted from the GDELT database; 'crime' news share is depicted on the left-hand scale (lhs), 'debt' news share is on the right-hand scale (rhs). The Magdeburg Christmas market attack occurred at 19:04 CET on Friday 20 December 2024 (vertical dash line). Section B in the Appendix provides an extension of this figure to other salient events from early 2025.

Accordingly, our sample starts in mid-December 2024, or the week of the Magdeburg Christmas market attack, and ends on March 31, just before the Trump's tariff announcement that rattled global financial markets in April 2025. Despite it being rather short, this sample is representative for the market reactions driven by political noise that we aim to uncover.

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Figure 2: Correlation spikes: the media coverage of 'debt'-related news rises along with German sovereign yields around sensitive events



Note: The 5-day rolling-window correlations depicted on the left-hand scale are calculated between the topic share of daily 'debt'-related news (represented on the right-hand scale, *rhs*) and the daily changes in 5-year sovereign German yields (depicted on the left-hand scale, *lhs*). The dashed lines represent key calendar dates in the German political timeline, as listed in section A of the online Appendix: date (1) identifies 20/12/2024 or the day of the Magdeburg Christmas market attack; date (2) identifies 24/02/2025 or the day after federal elections; date (3) identifies 05/03/2025 or the day after chancellor Merz key policy announcement; date (4) identifies 21/03/2025 when Bundesrat gave the final vote.

Figure 2 offers a very preliminary view of how German media coverage reflects political noise, encompassing electoral debates and reform proposals relevant to long-term sovereign yields dynamics. To aid readability, we highlight four distinct episodes. While there are some periods where the topic share of 'debt'-related news rises alongside with German sovereign yields, such positive co-movements are relatively rare in our sample. In particular, these co-movements seem to concentrate around key dates (as annotated in Figure 2), suggesting that media coverage and yields move together around particularly salient events or declarations

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that might be seen as relevant by financial markets. To gain more intuition, we compute the 5-day rolling-window correlations between media news volumes and the 5-year sovereign yields, highlighting four key dates that marked German politics in early 2025 (see more details in the online Appendix, section A).

Our main explanatory variable is constructed as the (log) volume of 'debt'-related news in local German media, which we instrument with the (log) volumes of local 'crime'-related news;[7] see section B of the online Appendix for more details and the exact list of keywords. The pattern in Figure 2 suggests that sovereign yields co-move (as correlation goes up) rapidly with news driven by domestic political noise, at a frequency that may be difficult to reconcile with revisions in macroeconomic or fiscal fundamentals. This timing consideration motivates an empirical specification that exploits daily variation in sovereign yields to capture high-frequency, short-horizon market responses to politically driven news.

For each bond type, we set up a system linking daily changes in yields across various maturities that we estimate with SUR methods, with each equation specified as:

$$\Delta yields_{t,m} = \beta_0 + \beta_1\, m + \beta_2\, News_t + \beta_3\, (News_t \# m) + \beta_4\, X_t + \varepsilon_{t,m} \qquad (4)$$

where m denotes maturity, β's are coefficients, $News$ denotes debt-related news volumes (in logs), the # captures interactions, while X is a vector of dummies that control for important calendar dates, trading patterns (e.g. day-of-the-week dummies) and other controls. Interactions are included because the relationship between news and yields might vary with maturity. The estimator we apply is a GMM estimator with an optimal weighting matrix (see Wooldridge, 2002, Sec. 8.3). A high first-stage F-stat supports the relevance of our instrument.

[7] The idea is that changes in the number of crime news reporting can generate exogenous movements in the volume of debt-related news covered by local media outlets.

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To complement these estimates, we report a series of robustness checks and placebo tests and present the OLS estimates associated with the main results.

3. EMPIRICAL ANALYSIS

3.1 Main results

In this section, we empirically test the two main hypotheses developed earlier and present the results from estimating equation (4). In Table 1 we test our H1 hypothesis and draw some key insights. First, note that the coefficients associated with $News$ suggest a statistically significant relationship between media coverage and German nominal and real yields; the significance levels are rather conservative, likely due to our short sample. We find higher coefficients for inflation-adjusted bonds, rather than for sovereign bonds; their size and significance suggest that markets are expecting higher real interest rates, not higher inflation, thus confirming our H1a hypothesis. This result is consistent with fiscal expansionary effects described in the early theoretical literature where fiscal policy is considered rather passive.[8]

Second, note that the constant term in Table 1 is always statistically significant and negative. We believe this estimate should be seen in the context of the two interest rate cuts operated by the ECB at its January and March 2025 meetings; the subsequent downward tendency in Eurozone short-term interest rates was then carried into the negative constant from Table 1.

Third, notice that the interaction coefficient is not significant in any specification, pointing at a parallel move in long-dated yields. Finally, the fact that VIX enters significantly reflects the

[8] Note that this result for Germany differs from recent evidence in Ramey (2016) and Latifi et al., (2024), who find that fiscal expansions typically lead to a decline in real rates through higher inflation expectations.

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role of global risk sentiment in daily yield movements; importantly, controlling for this channel does not alter the sign or statistical significance of the debt-related news coefficient, indicating that our results are not driven by global uncertainty shocks. In the context of our identification strategy, controlling for the VIX also helps safeguard the IV exclusion restriction; it confirms that our crime-news instrument isolates exogenous shifts in media space allocation without picking up broader shifts in investor risk aversion.

Lastly, the *News* and March 5th dummy coefficients in Table 1 allow us to separate two distinct sources of yield variation: narrative pricing on the margin, captured by the continuous *News* variable, versus the effect of a genuinely discrete fiscal policy shock, captured by the event dummy. The former is modest in size: for example, a doubling of daily debt-related news volume is associated with an increase of about 2.3 bps in 5-year German nominal yields, falling to roughly 2.1 bps at the 10-year maturity, consistent with markets continuously repricing fiscal risk in small increments.[9] By contrast, the March 5th dummy of 26.3 bps shows that Chancellor Merz's debt-brake announcement moved yields an order of magnitude more than routine news-driven variation would predict, underscoring that discrete policy surprises, rather than incremental media attention, could account for the bulk of the observed yield reaction in our short sample (see also figure B1 in the online Appendix).

[9] Marginal effects here are computed based on equation (4) as $[\beta_2 + \beta_3\, m]$ * ln(2), where m is the bond maturity in years, evaluated using estimates from the first column of Table 1. The doubling reflects realistic day-to-day swings in raw debt-related news volume, distinct from the topic-share fluctuations shown in Figures 1-2.

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Table 1: German 'debt'-related news' and sovereign yields

SUR estimates (standard errors are in parentheses)	German sovereign yields	German inflation-adjusted yields	German sovereign yields	German inflation-adjusted yields	German sovereign yields	German inflation-adjusted yields
constant	-0.2551* (0.1461)	-0.3287** (0.1457)	-0.2863** (0.1512)	-0.3606** (0.1475)	-0.7592** (0.3218)	-0.6433** (0.2881)
Maturity	0.0047 (0.0034)	0.0088 (0.0056)	0.047 (0.034)	0.088 (0.055)	0.0045 (0.0033)	0.0061 (0.0064)
News	0.0354* (0.0202)	0.0455** (0.0202)	0.0397* (0.0208)	0.0498** (0.0203)	0.0363* (0.0204)	0.0270** (0.0137)
News # Maturity	-0.0006 (0.0005)	-0.0012 (0.0008)	-0.0006 (0.0005)	-0.0012 (0.0008)	-0.0006 (0.0005)	-0.0006 (0.0006)
dummy (March 5th)	0.2630* (0.1473)	0.0814 (0.1265)				
dummy (all politically relevant dates)			0.0085 (0.0174)	0.0103 (0.0129)	0.0163 (0.0187)	0.0193 (0.0138)
VIX					0.1184* (0.0659)	0.0914* (0.0554)
US 1-year yield					0.0014 (0.0013)	0.0003 (0.0011)
R^2	0.3370	0.2420	0.0433	0.1408	0.0539	0.1406

Note: Daily data from 16 Dec. 2024 – 31 Mar. 2025; the total number of observations is 76. The # denotes interactions. The last row reports the system wide R^2. Instruments used: log of German 'crime'-related news (in absolute levels), day-of-the-week dummies. All politically relevant dates are listed in Appendix A. The first-stage F-stat of 12.7643 is estimated from a first-stage regression where 'debt'-related news is regressed against 'crime'-related news, and day-of-the-week dummies. In parentheses, we report the asymptotic standard errors of the GMM estimator, which are robust to the presence of heteroskedasticity and correlation of errors across maturities. Results from Breusch-Godfrey tests show that the null hypothesis of no auto-correlation of errors across periods cannot be rejected at any reasonable significance level for all maturities. The ***, **, * denote statistical significance at 1, 5, and 10% respectively.

There is a large literature supporting the converge of European sovereign yields in response to major economic announcements and data releases (e.g. Ehrmann et al., 2011) and providing evidence on spillovers effects after political news (e.g. Beetsma et al., 2013). In Table 2 we look at potential spillovers to the two largest sovereign bond markets in the Eurozone,

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namely France and Italy; in section C of the online Appendix, we extend this analysis to other European countries, but results are mixed.

Table 2: German 'debt'-related news' and Italian, French sovereign bonds

SUR estimates (standard errors are in parentheses)	Italian nominal yields	Italian inflation-adjusted yields	French nominal yields	French inflation-adjusted yields
constant	-0.3093*	0.2158	-0.3300**	0.0380
	(0.1785)	(0.1889)	(0.1649)	(0.1260)
Maturity	0.0051	-0.0182	0.0038	0.0011
	(0.0034)	(0.0109)	(0.0031)	(0.0033)
News	0.0429*	-0.0297	0.0457**	-0.0047
	(0.0246)	(0.0264)	(0.0228)	(0.0175)
News # Maturity	-0.0007	0.0026*	-0.0005	-0.0001
	(0.0005)	(0.0015)	(0.0004)	(0.0004)
dummy (March 5th)	0.1362	-0.2489	0.1451	-0.1865
	(0.2140)	(0.3146)	(0.1965)	(0.2664)
R^2	0.2802	0.1089	0.2392	0.0927

Note: Daily data from 16 Dec. 2024 – 31 Mar. 2025; the total number of observations is 76. The # denotes interactions. The last row reports the system wide R^2. Instruments used: log of German 'crime'-related news (in absolute levels), day-of-the-week dummies. The first-stage F-stat of 12.7643 is estimated from a separate regression where 'debt'-related news is regressed against 'crime'-related news, and day-of-the-week dummies. Exact maturities for each system of equations are provided in section B of the Appendix. In parentheses, we report the asymptotic standard errors of the GMM estimator, which are robust to the presence of heteroskedasticity and correlation of errors across maturities. Results from Breusch-Godfrey tests show that the null hypothesis of no auto-correlation of errors across periods cannot be rejected at any reasonable significance level for all maturities. The ***, **, * denote statistical significance at 1, 5, and 10% respectively.

Most importantly, Table 2 confirms our H2b hypothesis, with statistical significance for nominal, but not for real, sovereign yields.[10] This pattern suggests that the observed co-

[10] An exception arises for Italian inflation-adjusted yields, where the interaction between *News* and maturity is statistically significant, while the level coefficient on *News* is not. This pattern likely reflects limited statistical power rather than a distinct economic mechanism. In particular, only two Italian inflation-linked bonds are outstanding in the 5–30 years maturity range, compared with five issues for similar French bonds, substantially reducing cross-maturity variation and degrees of freedom in the Italian case (see section B in the Appendix).

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movements in French and Italian nominal yields reflect benchmark pricing dynamics rather than any reassessment of country-specific fiscal or macroeconomic fundamentals — a distinction that is central to the policy interpretation of Eurozone yield divergence.

These results suggest that sovereign yield co-movements within the Eurozone can be driven by narrative pricing dynamics rather than country-specific fundamentals — a pattern whose policy implications we discuss in section 3.3. We next assess the robustness of these findings.

3.2 Robustness checks

We conduct a set of robustness checks and placebo exercises to assess whether our main results are driven by alternative channels or spurious correlations. Overall, these additional tests and checks support the interpretation we provide in Section 3.1.

First, we compare the IV estimates with standard OLS estimates; see table C1 from the online Appendix, section C. The OLS estimates are not showing any statistical significance, except for the 5th of March dummy. This is consistent with endogeneity biasing the OLS coefficients toward zero. We also included the one-day lagged news variable, while instrumenting contemporaneous news as before; results from table C2 in the Appendix are largely in line with our main findings in Table 1 from the previous section and consistent with a short-term, high-frequency pricing interpretation.

Second, we examine sovereign CDS spreads, which capture the credit-risk component of real yields but abstract from other real-rate components we discussed in section 2.2. Results, reported in Appendix C (Table C3), are rather inconclusive. In particular, we do not find systematic responses of German CDS to 'debt'-related media coverage, while evidence for

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France and Italy is weaker and less robust than for nominal and real yields. These findings do not contradict our H1 and H2, as CDS represent only one component of the real-rate channel; more importantly, CDS are not expected to capture pricing dynamics or benchmark effects that operate through nominal yields (according to our H2 hypothesis).

Third, we implement a first placebo test using the United Kingdom, a non-Eurozone country, as a potential spillover destination. We find no statistically significant coefficients, suggesting that our findings are not driven by global news shocks or common financial market conditions, but are specific to the Eurozone context and the German fiscal debate. The cross-country pattern of responses is heterogeneous, with statistically significant co-movements for Austria alongside France and Italy, but not for Spain or the Netherlands; we document these results in Table C4 and discuss alternative interpretations in section C of the online Appendix.

Fourth, we perform a content-based placebo test by replacing 'debt'-related news with 'sport'-related news as the main explanatory variable. As shown in the online Appendix (Section C, Table C5), coverage of sport news has no statistically significant influence on sovereign yields. This placebo test reinforces the interpretation that our results are specific to fiscal news relevant for sovereign debt markets, rather than reflecting general media attention or news volume effects.

Fifth, we look at sovereign *spreads* taken against Germany as an indirect test of the postulated co-movement in nominal yields (our H2 hypothesis). According to results depicted in Table C6 in the online Appendix, there is no strong statistical evidence that news matter for sovereign spreads. This result reinforces our interpretation that, by itself, nominal yield co-movements across some (but not all) Eurozone members cannot be taken as the sole evidence of market fragmentation.

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Last, we turn our attention to short duration bond yields, which would mainly reflect monetary rather than fiscal policy shifts. We perform the same system estimation as in (4); details and the results of this robustness check are displayed in Table C7, in section C from the online Appendix. We find a positive and statistically significant interaction between news and maturity pointing to a maturity-dependent relationship between news and sovereign yields, with the association becoming stronger at longer maturities. This evidence is consistent with Tables 1 – 2 and further justifies our initial focus on long-dated bonds as a better target for understanding how media outlets cover fiscal debates and political noise.

3.3 Discussion and policy implications

We believe our empirical findings offer some interesting policy insights, though some results lack strong statistical significance and should be interpreted with caution. First, we find that German long-term yields co-move with local media coverage of fiscal debates, with the adjustment occurring through real-rate components rather than inflation expectations. This pattern is consistent with markets pricing the prospective fiscal expansion primarily through real financing costs and the long-term real rate path, rather than through future inflation dynamics.

Second, we document sizable co-moves in nominal yields for France and Italy, among others, despite the absence of concurrent fiscal announcements in those countries; the result does not extend to real yields. This suggests that Eurozone yield changes operate primarily through nominal pricing spillovers rather than through real-rate adjustments or sovereign-risk repricing. Such episodes appear more consistent with market pricing dynamics than with deteriorating country-specific fundamentals — a distinction that is directly relevant for

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assessing whether an ECB policy response would be warranted. In fact, while some sovereign yields do co-move with German ones on a high frequency basis and are being sensitive to the same media spikes, this result is not common to all Eurozone sovereigns we analyse, creating a divergence in yields that may resemble market fragmentation.

We note that ECB has recently expanded its policy toolkit which now includes the Transmission Protection Instrument. Because this instrument is deliberately designed without mechanical triggers, its credibility depends on being deployed only when market dynamics reflect genuine fragmentation rather than short-lived political noise. The added risk is that domestic media coverage of political tensions may complicate the distinction between episodic volatility and structural impairments to monetary policy transmission.

At the same time, any eventual calls for the ECB to offset politically induced market swings in sovereign yields could risk blurring the already thin boundary between monetary and fiscal realms (Bacchiocchi and Dragomirescu-Gaina, 2024). Reacting systematically to national budget debates—even when unrelated to sovereign-risk fundamentals—could push the system toward a perception of fiscal dominance. Preserving monetary independence is key in a monetary union where fiscal policy remains a national prerogative.

In this context, loosening Germany's fiscal stance to finance defence and security spending may be understood as part of a wider European public-good provision, best managed through coordinated fiscal action. This would reduce the burden on monetary policy and enable the ECB to safeguard transmission without being drawn into country-specific policy debates.[11]

[11] When national political debates influence sovereign yields beyond domestic borders, the ECB's ability to maintain consistent transmission becomes harder in the absence of stronger and more coordinated fiscal frameworks. Recent empirical evidence shows that shock transmission in the Eurozone depends critically on fiscal conditions; Afonso et al., (2025) document that monetary policy shocks have markedly different effects depending on each country's fiscal sustainability; see also Jouvanceau and Mikaliunaite-Jouvanceau (2023).

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Several recent proposals point in this same direction. One example is the recent Bruegel initiative (see Wolff et al., 2025), which advocates extending the *Recovery and Resilience Facility* model to finance large-scale European defence and security investments through common EU borrowing. By shifting the financing of shared priorities to the European level, such an arrangement would help insulate national sovereign yield curves from temporary, politically driven fluctuations—precisely the type of dynamics we identify in our empirical results. Other contributions argue for strengthening Eurozone fiscal capacity to reduce reliance on the ECB during episodes of market unrest. Favero and Missale (2012) have shown that jointly issued instruments can mitigate cross-country risk premia by improving the liquidity, supply and sharing of safe assets; along this line, Amato et al. (2024) propose a European Defence Asset (EDA) that would pool financing for common security spending. All these initiatives point to a broader policy direction: expanding common fiscal tools can help absorb shocks generated by local (political or other) noise, thereby reducing the burden on monetary policy and limiting Eurozone spillovers and fragmentation risk.

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4. CONCLUSIONS

Media represents a key platform through which financial markets extract policy-relevant information from political discourse, particularly during periods of heightened uncertainty such as election cycles. Our analysis of Eurozone sovereign yields in early 2025 offers several insights, although the relatively short sample and weak statistical significance call for a cautious interpretation. We find that daily changes in German long-term yields co-move with local media coverage of the debt-brake debate, with the response concentrated in real yields rather than inflation expectations. This pattern suggests that markets interpreted the debate

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as relevant for long-run real financing conditions. While two ECB rate cuts In January and March 2025 may have provided some offsetting influence, the extent to which monetary policy alone can counteract fiscal-driven upward pressures on long-term yields remains an open question. In this sense, our analysis provides an early, though necessarily partial, account of the future fiscal-monetary policy challenges facing the Eurozone, as it navigates an increasingly uncertain geopolitical context.

We also document patterns consistent with spillovers from German media coverage to French and Italian bonds – two of the largest sovereign markets in the Eurozone. This result highlights both the sensitivity of sovereign bond markets to politically salient news and the ease with which yield moves can propagate across some Eurozone countries. These spillovers though are not uniformly distributed across all Eurozone members that we analysed, revealing a heterogeneity dimension in sovereign yields that resembles market fragmentation. More importantly, the spillovers appear to operate through market pricing dynamics rather than through changes in sovereign risk fundamentals, consistent with temporary yield divergence that needs not reflect genuine fragmentation. This distinction is central for policy evaluation, as it complicates the assessment of whether observed yield differentials reflect warranted differences in fundamentals or transient market reactions. While the ECB now possesses new policy instruments to address unwarranted spread widening, their use necessarily involves discretion and careful diagnosis. Our results suggest that domestic media coverage of politically driven noise may complicate identification of genuine market fragmentation, which does indeed carry risks and requires policy intervention.

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ONLINE APPENDIX

Yield shockwaves amid the 2025 German debt brake reckoning

Summary content of the online appendix

Section A

Includes a timeline of the main German political events from early 2025 and provides a list of relevant calendar dates.

Section B

Includes details on data and variable construction (subsections B1 and B2), real media news titles from German outlets (subsection B3), sources and summary statistics (subsection B4).

Figure B1: dynamics of nominal yields and breakeven inflation

Figure B2: average media volumes for 'debt'-related and 'crime'-related news before and immediately after major terrorist attacks in Germany

Section C

Includes additional results and robustness checks described in section 3.2. of the main text.

Table C1: OLS estimates versus IV estimates – comparing different estimation methods

Table C2: Controlling for lagged media news

Table C3: Sovereign CDS – estimates using an alternative variable for risk premium

Table C4: Selected Eurozone members (nominal yields) – extending the analysis to other countries

Table C5: Debt-related versus sport-related news – performing a placebo test

Table C6: Sovereign nominal yield spreads taken versus Germany

Table C7: Short duration bond yields – re-estimating the same model for short duration yields

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SECTION A: Germany – main political events timeline, 2025

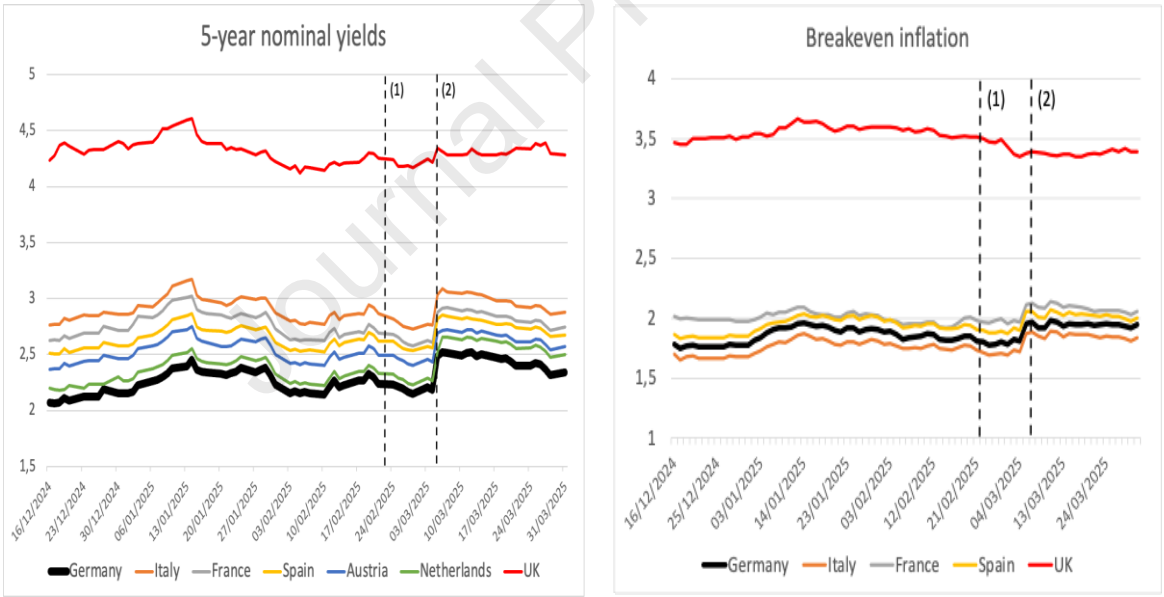
Date	Event
10–14 January	The Forsa-DGAP poll on easing the constitutional debt brake is conducted. DGAP stands for the German Council on Foreign Relations.
27 January	DGAP publishes the poll results. Available in German: DGAP – Mehrheit der Deutschen unterstützt Änderungen der Schuldenbremse
30 January	The ECB cuts interest rates by 25 basis points.
23 February	Federal elections are held. CDU/CSU leader Friedrich Merz and outgoing Chancellor Olaf Scholz agree to reform the debt brake by amending the Basic Law to exempt defence spending exceeding 1% of GDP and to establish a €500 billion infrastructure fund.
4 March	Merz holds a late-evening press conference and proposes a significant increase in defence spending, stating: "Germany and Europe must quickly strengthen their defence capabilities." Financial markets react strongly the following morning, 5 March.
6 March	The ECB cuts interest rates again by 25 basis points.
11 March	During coalition negotiations, the Greens secure €100 billion from the infrastructure fund for a climate and economic transformation fund and advocate for enshrining climate neutrality in the federal constitution.
13 March	The Greens announce their support for the debt-brake amendment, contingent on the agreed climate-related provisions.
18 March	The Bundestag votes 512–206 in favour of the debt-brake amendment, sending it to the Bundesrat for approval.
21 March	The Bundesrat passes the amendment by 53–16, achieving the required two-thirds majority for it to become law.
25 March	The new Bundestag convenes, with Julia Klöckner elected as president.

SECTION B: Data construction details

Subsection B1: data construction

GOVERNMENT BOND YIELDS: The following benchmark maturities are used for all sovereign bonds: 5-year, 10-year, 20-year, and 30-year. There are currently 4 issues of German *inflation-adjusted* bonds outstanding, out of which 3 have maturities above 5 years: April 2030, April 2033 and April 2046. Residual maturities (considering February 2025 as a starting point) are calculated for inflation-adjusted bonds and used as regressors in our system of equations. For Italy and France there are two and four respectively *inflation-adjusted* bond issues outstanding with maturities above 5 years; the same benchmark maturities between 5 and 30 years are used for all Eurozone countries. All data are from Bloomberg.

Figure B1: Nominal yields co-movement and breakeven inflation



Note: All data in this graph is from Bloomberg and depicts the daily yields of 5-year nominal yields (left panel) and the breakeven inflation based on 10-year yields (right panel) for countries included in the analysis. Sample is daily from 16 Dec. 2024 to end of 31 Mar. 2025. The two vertical dashed lines identify the following key dates: (1) federal elections held on 23 February 2025, (2) Merz's late evening speech on 4 March 2025.

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MEDIA NEWS: To extract news volumes series from GDELT we use some specific keywords for each topic, as described in the table below, and limit our selection to German outlets. Besides 'crime'-related news, we have experimented with 'sport'-related and 'entertainment'-related news as instruments with similar results. For the sake of completeness, it's worth noting that 'debt brake' and 'fiscal policy' are each expressed as single compound words in German: *Schuldenbremse* and *Finanzpolitik*, respectively.

Topic	List of '**keywords'** used in GDELT search to extract media news volumes from German outlets
'debt'-related news	'debt', 'deficit', 'borrowing', 'debt brake', 'fiscal policy'
'crime'-related news	'crime', 'rape', 'murder', 'criminal', 'thief', 'accident', 'victim', 'terrorist', 'terrorism', 'incident', 'robbery', 'robber'

Note: At least one keyword must be present in the news, so there is an OR logical clause linking the keywords

The *News* variable in the main equation (4) is simply defined as the natural logarithm of all GDELT media news articles featuring any of the keywords listed in the table above, i.e.:

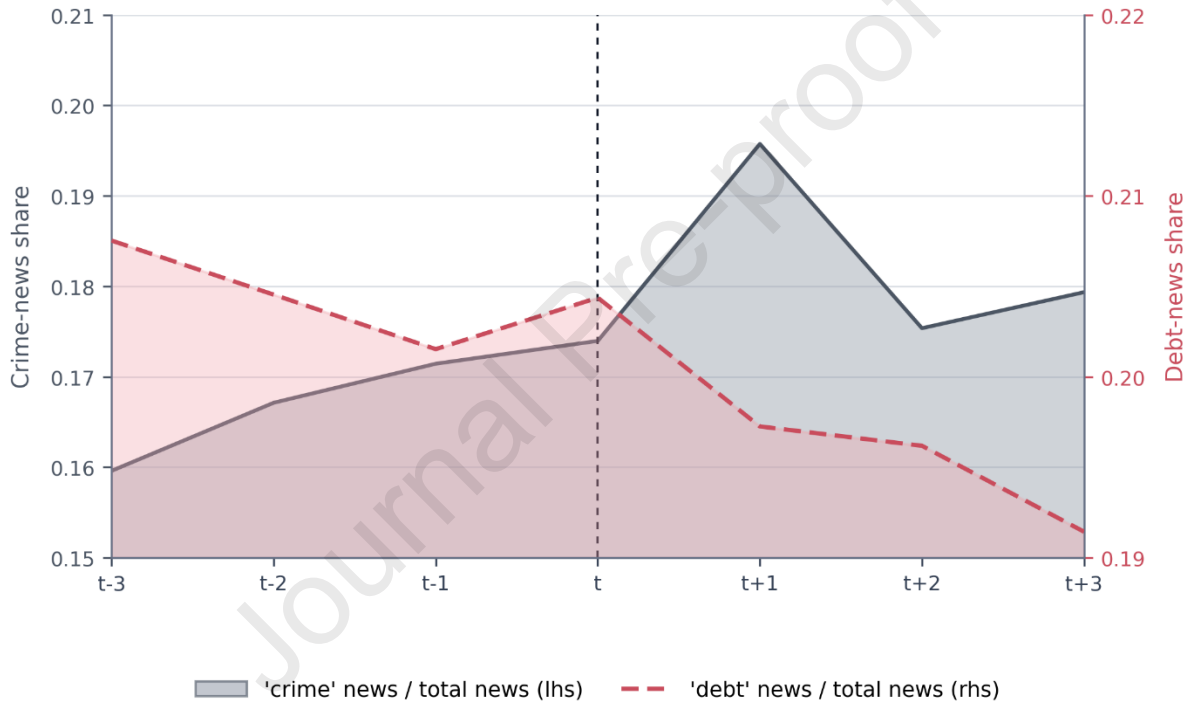
News = *log* (all news articles featuring any '**keyword'** from the list above)

We should mention that our GDELT news variable, as a proxy for media attention, correlates with other proxies of attention typically employed in the literature. One such alternative is based on Google Trends data, which capture the information demanded by readers rather than information supplied by media outlets. There is a small adjustment when extracting this data: since debt-related keywords (as used above in GDELT) are unlikely to be directly searched by users, we instead use "Merz," the name of the German chancellor, as a search term. The resulting Google Trends series exhibits a strong correlation of 0.5 (in *logs*) with our GDELT-based news measure, thus validating the informational content of our media-based proxy, rather than providing an alternative estimation.

Subsection B2: Media news volumes around terrorist attacks

Figure B2 below is the equivalent of Figure 1 from the main text, built based on an extended sample; the media coverage shares below are computed as averages (based on GDELT data) across the 4 deadly terrorist attacks that occurred during the Dec. 2024 – Mar. 2025 period. The observed substitution in topic shares is meant to provide a visual intuition for the relevance of our instrument.

Figure B2: Topic shares based on GDELT data around deadly terrorist attacks in Germany



Note: News topic shares are built using the total German news volume. The terrorist attacks around which we built the graph are the following: the Aschaffenburg attack on 22 January 2025 (2 deaths, 3 injured, 5 total victims), the Mannheim attack on 3 March 2025 (2 deaths, 14 injured, 16 total victims), the Munich attack on 13 February 2025 (2 deaths, 43 injured, 45 total victims), and the Magdeburg Christmas market attack on 20 December 2024 (6 deaths, about 300 injured, about 306 total victims). Death and victim counts are taken from Wikipedia. The horizontal axis depicts time measured in days, with "t" indicating the reported date of each attack, while the vertical axes depict the media coverage share of each topic.

Subsection B3: Examples of top media news in German outlets

As a validation of our *News* proxy, we use concrete news titles and URL's to illustrate the extent of media coverage based on GDELT data. In particular, we list examples of 'debt'-related news featuring in German outlets on the two key dates, i.e. 4th and 5th of March 2025, extracted from GDELT in chronological order; while these are the top article titles selected by GDELT, note that the true volume of debt-related news on these days was 1557 and 1948 respectively.

Date	Time	Article title	Source / URL
2025-03-04	10:30	Merz will 900 Milliarden Euro Schulden machen: „Klingt mehr nach Satire als nach einem ernsthaften Vorschlag“	wa.de — http://www.wa.de/wirtschaft/merz-will-900-milliarden-euro-schulden-machen-klingt-mehr-nach-satire-als-nach-einem-ernsthaften-vorschlag-93606127.html
2025-03-04	11:45	220 Milliarden Euro mehr Spielraum: Bundesbank schlägt Aufweichung der Schuldenbremse vor	Tagesspiegel — https://www.tagesspiegel.de/politik/220-milliarden-euro-mehr-spielraum-bundesbank-schlagt-aufweichung-der-schuldenbremse-vor-13310290.html
2025-03-04	11:45	Wirtschaftsexperten sind überzeugt: Wir schaffen das mit der Aufrüstung	Ostsee-Zeitung — https://www.ostsee-zeitung.de/wirtschaft/wirtschaftsexperten-sind-ueberzeugt-wir-schaffen-das-mit-der-aufruestung-W3OM4WBSNJDWTO3VS6TDDTKNLM.html
2025-03-04	13:30	Wirtschaftsexperten sind überzeugt: Wir schaffen das mit der Aufrüstung	Märkische Allgemeine — https://www.maz-online.de/wirtschaft/wirtschaftsexperten-sind-ueberzeugt-wir-schaffen-das-mit-der-aufruestung-W3OM4WBSNJDWTO3VS6TDDTKNLM.html
2025-03-04	15:45	Landesfinanzen: Wolf – Investitionspaket ohne Aussetzen der Schuldenbremse	Süddeutsche Zeitung — https://www.sueddeutsche.de/wirtschaft/landesfinanzen-wolf-investitionspaket-ohne-aussetzen-der-schuldenbremse-dpa.urn-newsml-dpa-com-20090101-250304-930-393488
2025-03-04	15:45	Bundesbank advocates for enhanced flexibility in debt-brake regulation	The Munich Eye — https://themunicheye.com/bundesbank-debt-brake-reform-investment-flexibility-12194
2025-03-04	16:15	Schuldenbremse: Bundesbank schlägt Reform vor – SPD und Grüne offen	t-online — https://www.t-online.de/nachrichten/deutschland/innenpolitik/id_100620686/schuldenbremse-bundesbank-schlaegt-reform-vor-spd-und-gruene-offen.html
2025-03-04	17:15	Finanzministerin: Kein größeres Verschuldungsproblem (dpa)	Thüringen.de — https://thueringen.de/dpa-meldungen/finanzministerin-kein-groesseres-verschuldungsproblem-403794
2025-03-04	18:45	Union und SPD wollen Milliarden-Kredite ermöglichen	wa.de — http://www.wa.de/politik/union-und-spd-wollen-milliarden-kredite-ermoeglichen-zr-93606501.html
2025-03-04	20:15	Reform der Schuldenbremse: Bundesbank plädiert für mehr Schulden	taz — https://taz.de/Reform-der-Schuldenbremse/!6070336/
2025-03-04	20:15	Merz macht die Milliarden locker: So viel Zeitenwende war noch nie	Hamburger Abendblatt — https://www.abendblatt.de/politik/article408479738/merz-macht-die-milliarden-locker-so-viel-zeitenwende-war-noch-nie.html

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Date	Time	Article title	Source / URL
2025-03-05	08:30	Politik-Blog: Grimm warnt – Neue Schulden ohne Reformen wären Weg in den Abgrund	finanzen.net — https://www.finanzen.net/nachricht/aktien/politik-blog-grimm-neue-schulden-ohne-reformen-waeren-weg-in-den-abgrund-14292414
2025-03-05	08:30	Politik-Blog: Bauindustrie – Plan von Union und SPD ist unerlässlich	finanzen.net — https://www.finanzen.net/nachricht/aktien/politik-blog-bauindustrie-plan-von-union-und-spd-ist-unerlaesslich-14292412
2025-03-05	08:45	Umfaller Merz: In der CDU regt sich Widerstand	Der Westen — https://www.derwesten.de/politik/merz-cdu-schulden-umfaller-wortbruch-id301461982.html
2025-03-05	08:45	JU-Vorsitzender sieht finanzpolitische Einigung als Niederlage für die Union	Deutschlandfunk — https://www.deutschlandfunk.de/ju-vorsitzender-sieht-finanzpolitische-einigung-als-niederlage-fuer-die-union-kritik-von-gruenen-und-100.html
2025-03-05	09:00	Politik-Blog: Familienunternehmen – Probleme nicht nur mit Geld lösbar	finanzen.net — https://www.finanzen.net/nachricht/aktien/politik-blog-familienunternehmen-probleme-nicht-nur-mit-geld-loesbar-14292474
2025-03-05	09:15	Politik-Blog: Junge Union sieht Einigung als Niederlage für die Union	FinanzNachrichten.de — https://www.finanznachrichten.de/nachrichten-2025-03/64732913-politik-blog-junge-union-sieht-einigung-als-niederlage-fuer-union-015.htm
2025-03-05	09:30	Politik-Blog: Haßelmann – CDU und CSU haben schamlos Wahlversprechen gebrochen	FinanzNachrichten.de — https://www.finanznachrichten.de/nachrichten-2025-03/64733012-politik-blog-hasselmann-cdu-und-csu-haben-schamlos-wahlversprechen-gebrochen-015.htm
2025-03-05	10:15	„Echte Zeitenwende“ oder „extrem riskante Wette“? Ökonomen zu Union und SPD	Tagesspiegel — https://www.tagesspiegel.de/politik/echte-zeitenwende-oder-extrem-riskante-wette-was-okonomen-zu-den-finanz-vorhaben-von-union-und-spd-sagen-13317043.html
2025-03-05	12:15	Deutschland verlor wegen Krisen der letzten fünf Jahre 735 Mrd. Euro (DW)	Deutsche Welle — https://www.dw.com/ru/iw-krizisy-poslednih-5-let-oboslis-ekonomike-frg-v-735-mlrd-evro/a-71832230
2025-03-05	14:45	Ökonomen: Finanzpaket bringt Konjunkturplus und Schuldenberg	Badische Zeitung — https://www.badische-zeitung.de/oekonomen-finanzpaket-bringt-konjunkturplus-und-schuldenberg
2025-03-05	15:30	Historische Einigung: Ökonomen sehen Konjunkturplus und Schuldenberg	Rhein-Neckar Zeitung — https://www.rnz.de/politik/wirtschaft-regional_artikel,-Historische-Einigung-Oekonomen-Finanzpaket-bringt-Konjunkturplus-und-Schuldenberg-_arid,1523507.html
2025-03-05	15:45	„Gamechanger“: Experten begrüßen schwarz-rotes Milliardenpaket	Münchner Merkur — https://www.merkur.de/politik/gamechanger-experten-begruessen-schwarz-rotes-milliardenpaket-zr-93608908.html
2025-03-05	16:45	Deutschlands neue Schulden: Wie viel Schulden kann das Land verkraften?	Hannoversche Allgemeine Zeitung — https://www.haz.de/politik/deutschlands-neue-schulden-wie-viel-schulden-kann-das-land-verkraften-CRT22ZE2CVFG3JZFA7KQK2XCMY.html

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Subsection B4: Summary statistics

The summary statistics of the main variables underpinning the empirical analysis from section 3 are displayed in the table below:

Variable	Mean	Standard deviation	Source
German nominal yields, in %			Bloomberg
5-year sovereign generic bond yields	2.2869	0.1299	
10-year sovereign generic bond yields	2.5367	0.1814	
20-year sovereign generic bond yields	2.7840	0.1991	
30-year sovereign generic bond yields	2.7950	0.2096	
German inflation-adjusted yields, in %			Bloomberg
DBRI 0.5 04/15/30	0.4414	0.0779	
DBRI 0.1 04/15/33	0.5447	0.1094	
DBRI 0.1 04/15/46	0.7790	0.1761	
French nominal yields, in %			Bloomberg
5-year sovereign generic bond yields	2,7680	0,1104	
10-year sovereign generic bond yields	3,2896	0,1541	
20-year sovereign generic bond yields	3,6574	0,1623	
30-year sovereign generic bond yields	3,8449	0,1639	
French inflation-adjusted yields, in %			Bloomberg
FRTR 0.6 07/25/34	1,1479	0,0952	
FRTR 0.1 07/25/36	1,2536	0,1019	
FRTR 1.8 07/25/40	1,3926	0,1078	
FRTR 0.1 07/25/47	1,4465	0,1296	
FRTR 0.1 07/25/53	1,4038	0,1420	
Italian nominal yields, in %			Bloomberg
5-year sovereign generic bond yields	2,9113	0,1058	
10-year sovereign generic bond yields	3,6568	0,1778	
20-year sovereign generic bond yields	4,0984	0,1473	
30-year sovereign generic bond yields	4,3307	0,1811	
Italian inflation-adjusted yields, in %			Bloomberg
BTPS 2.4 05/15/2039	2,1019	0,1233	
BTPS 2.55 09/15/2041	2,0776	0,1247	
Media news volumes, in logs			Global Database of Events, Language, and Tone (GDELT)
'debt'-related news volumes	7.2506	0.2993	
'crime'-related news volumes	7.0861	0.2203	

Note: The mean and standard deviation over the sample, 16/12/2024 – 31/03/2025, are displayed for the main time-series used in the empirical analysis. The 5-year to 30-year yields correspond to generic sovereign bonds; inflation-adjusted yields correspond to specific bond issues identified by their ticker strings. The frequency of these time-series is daily; media news from Saturday and Sundays are aggregated and averaged to Mondays' observations. All yields are transformed in first differences when estimating equation (4), while *News* are in log terms, as referred to in the table above.

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SECTION C: Robustness checks

Next, we present the results of the robustness and placebo checks discussed in section 3.2.

Subsection C1: OLS estimates

In table C1 we offer a comparison between the IV and OLS estimates for our main results. As illustrated below, the OLS estimates only confirm the importance of the exogenous 5th of March event, while news coefficients are not statistically significant, in contrast to our IV estimates. The lack of significance for the OLS news coefficient points to endogeneity and reverse causality, concerns that typically dilute the OLS results.

Table C1: OLS estimates versus IV estimates

SUR estimates (standard errors are in parentheses)	German sovereign yields	German inflation-adjusted yields	German sovereign yields	German inflation-adjusted yields	German sovereign yields	German inflation-adjusted yields	German sovereign yields	German inflation-adjusted yields
Method	IV	IV	OLS	OLS	IV	IV	OLS	OLS
constant	-0.2551* (0.1461)	-0.3287** (0.1457)	0.0279 (0.0354)	0.0069 (0.0306)	-0.2863** (0.1512)	-0.3606** (0.1475)	-0.0221 (0.0667)	-0.0179 (0.0421)
Maturity	0.0047 (0.0034)	0.0088 (0.0056)	0.0000 (0.0012)	-0.0005 (0.0016)	0.047 (0.034)	0.088 (0.055)	0.0000 (0.0012)	-0.0005 (0.0016)
News	0.0354* (0.0202)	0.0455** (0.0202)	-0.0051 (0.0065)	-0.0016 (0.0056)	0.0397* (0.208)	0.0498** (0.0203)	0.0043 (0.0125)	0.0031 (0.0079)
News # Maturity	-0.0006 (0.0005)	-0.0012 (0.0008)	0.0000 (0.0002)	0.0002 (0.0003)	-0.0006 (0.0005)	-0.0012 (0.0008)	0.0000 (0.0002)	0.0002 (0.0003)
dummy (March 5th)	0.2630* (0.1473)	0.0814 (0.1265)	0.2747*** (0.0073)	0.1274*** (0.0057)				
dummy (all politically relevant dates, Appendix A)					0.0085 (0.0174)	0.0103 (0.0129)	0.0220 (0.0276)	0.0083 (0.0149)
R^2	0.3370	0.2420	0.4294	0.2094	0.0433	0.1408	0.0328	0.0250

Note: Daily data from 16 Dec. 2024 – 31 Mar. 2025; total number of observations is 76. The # denotes interactions. The last row reports the system wide R^2. Instruments used: log of German 'crime'-related news (in absolute levels), day-of-the-week dummies. The first-stage F-stat of 12.7643 is estimated from a separate regression where 'debt'-related news is regressed against 'crime'-related news, and day-of-the-week dummies. Exact maturities for each system of equations are provided in section B of the Appendix. In parentheses, we report the asymptotic standard errors of the GMM estimator, which are robust to the presence of heteroskedasticity and correlation of errors across maturities. Results from Breusch-Godfrey tests show that the null hypothesis of no auto-correlation of errors across periods cannot be rejected at any reasonable significance level for all maturities. The ***, **, * denote statistical significance at 1, 5, and 10% respectively.

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Subsection C2: Controlling for lagged media news

In table C2 we include the lagged news to the main specifications presented in Table 1 from the main text. Only the contemporaneous news is instrumented as in the main text; notice the large first-stage F-stat in this case when the lagged news is added to the specification. With minor alterations, results below are largely similar to those in Table 1; while there is a negative coefficient for lagged news, notice that the sum of the two news coefficients remains positive.

Table C2: Controlling for lagged media news

SUR estimates (standard errors are in parentheses)	German sovereign yields	German inflation-adjusted yields	German sovereign yields	German inflation-adjusted yields
constant	-0.2551*	-0.3287**	-0.0174	-0.1686
	(0.1461)	(0.1457)	(0.1354)	(0.1281)
Maturity	0.0047	0.0088	0.0040	0.0083
	(0.0034)	(0.0056)	(0.0033)	(0.0053)
News	0.0354*	0.0455**	0.0509**	0.0595***
	(0.0202)	(0.0202)	(0.0216)	(0.0191)
News # Maturity	-0.0006	-0.0012	-0.0005	-0.0011
	(0.0005)	(0.0008)	(0.0005)	(0.0007)
lagged *News*			-0.0485***	-0.0362***
			(0.0166)	(0.0134)
dummy (March 5th)	0.2630*	0.0814	0.2927*	0.1010
	(0.1473)	(0.1265)	(0.1497)	(0.1223)
R^2	0.3370	0.2420	0.5095	0.1502

Note: Daily data from 16 Dec. 2024 – 31 Mar. 2025; total number of observations is 76. The # denotes interactions. The last row reports the system wide R^2. Instruments used: log of German 'crime'-related news (in absolute levels), day-of-the-week dummies. The first-stage F-stat of 12.7643 in the first 2 specifications is estimated from a separate regression where 'debt'-related news is regressed against 'crime'-related news, and day-of-the-week dummies; the last 2 specifications include also lagged news in the first-stage and the F-stat is 25.8226. Exact maturities for each system of equations are provided in section B of this online Appendix. In parentheses, we report the asymptotic standard errors of the GMM estimator, which are robust to the presence of heteroskedasticity and correlation of errors across maturities. Results from Breusch-Godfrey tests show that the null hypothesis of no auto-correlation of errors across periods cannot be rejected at any reasonable significance level for all maturities. The ***, **, * denote statistical significance at 1, 5, and 10% respectively.

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Subsection C3: Sovereign risk premia

In table C3 we focus on a more specific and well-known component of real yields y^R, i.e. the sovereign risk premium. As a market-proxy of sovereign risk we use daily quotes for the most liquid 5-year CDS or credit default swaps. In our framework, inflation-adjusted yields provide a broad market-based proxy for the real-rate component, y^R, whereas traditional measures of sovereign risk, such as CDS provide a proxy for sovereign or credit *risk*, which is only one component (among others) of real yields y^R. See the discussion in section 2.2.

Estimates presented in table C3 below are rather mixed, with statistically significant coefficients for French CDS, but not German and Italian CDS. We see these results as consistent with our discussion from section 3. In particular, the lack of statistical significance for German CDS alongside statistical significance for real yields is consistent with our main results and reflects the fact that CDS capture only the credit-risk component of y^R.

Table C3: Sovereign CDS

2SLS estimates (standard errors are in parentheses)	German 5-year CDS	Italian 5-year CDS	French 5-year CDS
constant	-0.9827 (1.1012)	-2.0599 (3.0334)	-4.6248 (2.6962)
News	0.1367 (0.1553)	0.2761 (0.4162)	0.6391* (0.3728)
dummy (March 5th)	0.1131 (0.8624)	-5.0406 (3.7611)	-1.0321 (2.6485)
R^2	0.1066	0.4013	0.0875

Note: Daily data from 16 Dec. 2024 – 31 Mar. 2025. The # denotes interactions. The last row reports the system wide R^2. Instruments used: log of German 'crime'-related news (in absolute levels), day-of-the-week dummies. The first-stage F-stat of 12.7643 is estimated from a separate regression where 'debt'-related news is regressed against 'crime'-related news, and day-of-the-week dummies. In parentheses, we report the asymptotic standard errors of the GMM estimator, which are robust to the presence of heteroskedasticity and correlation of errors across maturities. Results from Breusch-Godfrey tests show that the null hypothesis of no auto-correlation of errors across periods cannot be rejected at any reasonable significance level for all maturities. The ***, **, * denote statistical significance at 1, 5, and 10% respectively.

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Subsection C4: Extending the analysis to other Eurozone members

In table C4 we expand the cross-section dimension of our sample with Austria, Spain, Netherlands and UK as a placebo. Notice the statistically significant news' coefficient for Austrian yields, along with Italian and French yields, but the lack of statistical significance for Spanish and Dutch yields. UK serves as a placebo hence the expected coefficient is not statistically significant. There is a growing recent literature establishing that cross-country heterogeneity in sovereign yield responses may reflect differences in market size, liquidity, benchmark status, and investor base composition (see Jouvanceau and Mikaliunaite-Jouvanceau, 2023; Afonso et al., 2025).

Table C4: Selected Eurozone members - nominal yields

SUR estimates (standard errors are in parentheses)	Italian sovereign yields	French sovereign yields	Austrian sovereign yields	Spanish sovereign yields	Dutch sovereign yields	UK sovereign yields
constant	-0.3093* (0.1785)	-0.3300** (0.1649)	-0.2862* (0.1524)	-0.2373 (0.1803)	-0.0721 (0.1788)	-0.0048 (0.1769)
Maturity	0.0051 (0.0034)	0.0038 (0.0031)	0.0049 (0.0033)	0.0031 (0.0036)	0.0020 (0.040)	0.0018 (0.0036)
News	0.0429* (0.0246)	0.0457** (0.0228)	0.0398* (0.0210)	0.0238 (0.0180)	0.0106 (0.0249)	0.0007 (0.0245)
News # Maturity	-0.0007 (0.0005)	-0.0005 (0.0004)	-0.0007 (0.0005)	-0.0003 (0.0004)	-0.0003 (0.0005)	-0.0002 (0.0005)
dummy (March 5th)	0.1362 (0.2140)	0.1451 (0.1965)	0.1885 (0.1565)	0.1200 (0.2030)	0.0246 (0.1891)	-0.0219 (0.2949)
R^2	0.2802	0.2392	0.2619	0.2581	0.0043	0.0027

Note: Daily data from 16 Dec. 2024 – 31 Mar. 2025; total number of observations is 76. The # denotes interactions. The last row reports the system wide R^2. Instruments used: log of German 'crime'-related news (in absolute levels), day-of-the-week dummies. The first-stage F-stat of 12.7643 is estimated from a separate regression where 'debt'-related news is regressed against 'crime'-related news, and day-of-the-week dummies. In parentheses, we report the asymptotic standard errors of the GMM estimator, which are robust to the presence of heteroskedasticity and correlation of errors across maturities. Results from Breusch-Godfrey tests show that the null hypothesis of no auto-correlation of errors across periods cannot be rejected at any reasonable significance level for all maturities. The ***, **, * denote statistical significance at 1, 5, and 10% respectively.

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Subsection C5: Placebo test

Table C5 illustrates a different placebo test comparing estimates with debt-related news against sport-related news extracted from the same GDELT database. To select German news related to sport we use the following keywords: 'sports', 'football', 'tennis', 'F1', or 'basketball'. As expected, there is no statistically significant relationship between sport news and yields.

Table C5: Debt-related versus sport-related news

SUR estimates (standard errors are in parentheses)	German sovereign yields	German inflation-adjusted yields	German sovereign yields	German inflation-adjusted yields
News topic	Debt	Debt	Sport	Sport
constant	-0.2551* (0.1461)	-0.3287** (0.1457)	-0.1912 (0.1271)	-0.1096 (0.0797)
Maturity	0.0047 (0.0034)	0.0088 (0.0056)	0.0036 (0.0029)	0.0035 (0.0040)
News	0.0354* (0.0202)	0.0455** (0.0202)	0.0380 (0.0249)	0.0215 (0.0159)
News # Maturity	-0.0006 (0.0005)	-0.0012 (0.0008)	-0.0007 (0.0006)	-0.0006 (0.0008)
dummy (March 5th)	0.2630* (0.1473)	0.0814 (0.1265)	0.0076 (0.0173)	0.0103 (0.0129)
R^2	0.3370	0.2420	0.0164	0.1060

Note: Daily data from 16 Dec. 2024 – 31 Mar. 2025; total number of observations is 76. The # denotes interactions. The last row reports the system wide R^2. Instruments used: log of German 'crime'-related news (in absolute levels), day-of-the-week dummies. The first-stage F-stat of 12.7643 is estimated from a separate regression where 'debt'-related news is regressed against 'crime'-related news, and day-of-the-week dummies; similarly, for 'sport'-related news the F-stat is 7.0854. Exact maturities for each system of equations are provided in section B of this online Appendix. In parentheses, we report the asymptotic standard errors of the GMM estimator, which are robust to the presence of heteroskedasticity and correlation of errors across maturities. Results from Breusch-Godfrey tests show that the null hypothesis of no auto-correlation of errors across periods cannot be rejected at any reasonable significance level for all maturities. The ***, **, * denote statistical significance at 1, 5, and 10% respectively.

Subsection C6: Sovereign spreads

Table C6 displays the empirical results for sovereign spreads, computed based on sovereign nominal yields taken against their German counterparts. Except for Spain, there are no statistically significant coefficients reported below – an indirect confirmation for our H2 hypothesis which tests for co-movement in nominal yields.

Table C6: Sovereign nominal yield spreads (taken vs. Germany)

SUR estimates (standard errors are in parentheses)	Italian nominal spreads	French nominal spreads	Austrian nominal spreads	Spanish nominal spreads	Dutch nominal spreads
constant	-0.0906 (0.0865)	-0.0860 (0.0651)	-0.0323 (0.0351)	0.0016 (0.0511)	0.1081 (0.0892)
Maturity	0.0002 (0.0015)	-0.0008 (0.0010)	-0.0002 (0.0012)	-0.0021* (0.0012)	0.0004 (0.0024)
News	0.0125 (0.0118)	0.0118 (0.0090)	0.0045 (0.0048)	-0.0002 (0.0070)	-0.0144 (0.0123)
News # Maturity	-0.0000 (0.0002)	0.0001 (0.0001)	0.0000 (0.0002)	0.0003* (0.0002)	-0.0001 (0.0003)
dummy (March 5th)	-0.1344 (0.1232)	-0.1056 (0.0868)	-0.0741 (0.0450)	-0.1094 (0.0856)	-0.0719 (0.1227)
R^2	0.6875	0.6281	0.6394	0.6351	0.1453

Note: Daily data from 16 Dec. 2024 – 31 Mar. 2025; total number of observations is 76. The # denotes interactions. The last row reports the system wide R^2. Instruments used: log of German 'crime'-related news (in absolute levels), day-of-the-week dummies. The first-stage F-stat of 12.7643 is estimated from a separate regression where 'debt'-related news is regressed against 'crime'-related news, and day-of-the-week dummies. In parentheses, we report the asymptotic standard errors of the GMM estimator, which are robust to the presence of heteroskedasticity and correlation of errors across maturities. Results from Breusch-Godfrey tests show that the null hypothesis of no auto-correlation of errors across periods cannot be rejected at any reasonable significance level for all maturities. The ***, **, * denote statistical significance at 1, 5, and 10% respectively.

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Subsection C7: Short-duration bond yields

Table C7 displays the results pertaining to our last robustness check discussed in section 3.2. where we focus on short (rather than long) duration yields; the following maturities are considered in the estimation of system (4): 6-month, 1-year, 2-year, 3-year, 4-year, 5-year.

Note that news alone is never statistically significant; instead, the significant positive interaction between news and maturity below indicates that their association becomes stronger at longer maturities (except for France). Thus, political noise reflected in media news appears to be incorporated more strongly into longer-maturity sovereign yields than into shorter-maturity yields, a result consistent with our main findings in Tables 1 and 2.

Table C7: Short duration bond yields

SUR estimates (standard errors are in parentheses)	German sovereign short duration yields	Italian sovereign short duration yields	French sovereign short duration yields	Austrian sovereign short duration yields	Spanish sovereign short duration yields	Dutch sovereign short duration yields
constant	-0.0794 (0.0995)	0.0555 (0.1649)	0.0982 (0.0806)	-0.0069 (0.0815)	-0.0083 (0.0844)	-0.0098 (0.0830)
Maturity	-0.0423* (0.0246)	-0.0826** (0.0302)	-0.0363 (0.0352)	-0.0790*** (0.0276)	-0.0570*** (0.0215)	-0.0487** (0.0232)
News	0.0099 (0.0137)	-0.0086 (0.0116)	-0.0143 (0.0110)	0.0002 (0.0113)	0.0005 (0.0116)	0.0005 (0.0115)
News # Maturity	0.0061* (0.0034)	0.0116** (0.0004)	0.0051 (0.0048)	0.0112*** (0.0038)	0.0080*** (0.0030)	0.0070** (0.0032)
dummy (March 5th)	0.2871* (0.1491)	0.1421* (0.0766)	0.0503 (0.0944)	0.1333* (0.0695)	0.1170 (0.0832)	0.2057** (0.0756)
R^2	0.7642	0.2280	0.2111	0.2692	0.1746	0.4099

Note: Daily data from 16 Dec. 2024 – 31 Mar. 2025; total number of observations is 76. The # denotes interactions. The last row reports the system wide R^2. Instruments used: log of German 'crime'-related news (in absolute levels), day-of-the-week dummies. The first-stage F-stat of 12.7643 is estimated from a separate regression where 'debt'-related news is regressed against 'crime'-related news, and day-of-the-week dummies. In parentheses, we report the asymptotic standard errors of the GMM estimator, which are robust to the presence of heteroskedasticity and correlation of errors across maturities. Results from Breusch-Godfrey tests show that the null hypothesis of no auto-correlation of errors across periods cannot be rejected at any reasonable significance level for all maturities. The ***, **, * denote statistical significance at 1, 5, and 10% respectively.

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Declaration of interests

☒ The authors declare that they have no known competing financial interests or personal relationships that could have appeared to influence the work reported in this paper.

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