

# Discussion: Dangerous Liaisons? Debt Supply and Convenience Yield Spillovers in the Euro Area

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# Summary

- How does convenience yield (CY) in one country depend on bond supply in another country?
- Uses (German and French) DMO communication to measure bond supply shocks
- Find large spillovers to CY:s in low risk eurozone countries
- Smaller spillover effects to CY:s in riskier countries
- Rationalize the results using a model building on Brunnermeier et al. 24

# Evaluation

- Nice contribution to the literature!
- Can suggest a few more robustness checks
- Could also add more discussion about implications of results

## Robustness checks and additional explanations: empirics

- Ray et al. 24 focus a lot on maturity specific effects
- When 10Y yield reacts to DMO communication is the debt supply shock to similar maturity?
- Cross-maturity spillovers potentially interesting as well
- Yield responses being driven by CY changes interesting on its own
- Somewhat different from effects of unconventional monetary policy (Corradin & Schwaab 23, Nissinen & Sihvonen 24)

## Robustness checks and additional explanations: model

- Does the definition of CY in the model correspond with that in the empirical part?
- Smallish differences in default probability seem to result in large CY and spillover differences

## More discussion on why the results matter

- What implications do the results have for CY models or macro-finance models broadly?
- Perhaps could do a complete market benchmark for the model and show no yield spillovers (and no CY)
- Discussion of fiscal externalities interesting and could be extended
- Could link to the fiscal spillovers literature (e.g. Auerbach and Gorodnichenko 13)
- and emphasize this is a novel externality absent from standard models

Thank you!