Fiscal Surprises, Inflation Expectations, and Beliefs about Policy Responses

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VERY PRELIMINARY

Abstract

We causally identify how firms' surprises about the fiscal situation affect their inflation expectations and beliefs on potential policy actions through randomized control trials. While no treatment shift the average one-year-ahead inflation expectation, they produced sizable, systematic and heterogeneous movements in the distribution. Firms that had underestimated the debt-to-GDP ratio revised inflation expectations upward, whereas over-estimators revised them downward, so that the mean effect netted to zero. Beyond point expectations, treated firms reallocated subjective probability mass across scenarios to finance the fiscal deficit: the probability that they assign to orthodox deficit reduction rises and the likelihood of inflationary financing falls among initially pessimistic firms. These findings highlight how simple debt disclosures can reshape tail risks and policy beliefs even when short-run average inflation expectations do not move.

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1 Introduction

Persistently high inflation in the wake of COVID-19 has reignited interest in the fiscal determinants of the price level. The fiscal theory of the price level (FTPL) asserts that, when fiscal policy dominates monetary policy, the price level adjusts so that the real value of government obligations equals the present value of expected future primary surpluses; insufficient prospective fiscal backing will ultimately be resolved through higher prices (Cochrane, 2023). This idea is in line with the classic result of Lucas and Stokey (1983), according to which unexpected inflation can function as a tax on nominal public debt capital. Recent applications emphasize the post-pandemic context: Barro and Bianchi (2023) estimate that a large part of the increase in inflation in OECD economies between 2020 and 2022 reflected debt-financed deficits that did not correspond to expected future surpluses. These data raise the possibility that fiscal imbalances may unanchor inflation expectations, especially if agents infer a higher probability that some of the debt will be "inflated."

A growing experimental literature studies how *information* about public finances shapes expectations. On the household side, Grigoli and Sandri (2023) show in the US, UK, and Brazil that people tend to underestimate debt and revise inflation expectations upward when informed of true debt levels, with revisions proportional to the information surprise. Coibion et al. (2021) similarly find that *current* debt or deficit figures move expectations little, whereas news about rising *future* debt raises both short- and long-run expected inflation. More broadly, survey and field experiments document pervasive information frictions—agents update infrequently or partially (Mankiw and Reis, 2002; Coibion and Gorodnichenko, 2015)—and heterogeneous "subjective models" of the macroeconomy that mediate how news is processed (Andre et al., 2022). While most experiments focus on consumers or monetary announcements (e.g., Armantier et al., 2016; Binder, 2018), comparatively less is known about *firms'* responses to fiscal information, despite their central role in price setting. Theoretical benchmarks also differ in their policy assumptions: standard New Keynesian frameworks impose passive fiscal policy under monetary dominance (Woodford, 2003), whereas FTPL-style reasoning allows fiscal news to affect inflation when fiscal backing is uncertain (Cochrane, 2023). Empirically, recent work suggests that fiscal transparency and credibility shape expectations (Hayo and Neuenkirch, 2023; Mertens and Montiel Olea, 2022).

This paper provides new causal evidence on how *firms'* inflation expectations respond to fiscal information. We embed a randomized controlled trial (RCT) in the June 2025 wave of Uruguay's Business Expectations Survey (BES). Firms were randomly

assigned to: (i) a control group (no information); (ii) **Treatment 1: Debt Only**—a vignette stating that the official public-debt-to-GDP ratio is **57**%; or (iii) **Treatment 2: Debt + Projection**—the same 57% figure *plus* a *static* projection indicating that, if current policies remain unchanged, debt would reach **67**% of GDP in 2029. We elicited one-year-ahead CPI inflation before and after the vignette, the probability that 24-month inflation falls in the 3–6% target range, and beliefs about how deficits will be financed (expenditure cuts, inflationary finance, or no action), along with pre-treatment covariates (prior debt beliefs, a fiscal-surprise measure, inflation relevance, trust in the central bank and government).

Grounded in FTPL logic, one might expect higher-than-perceived debt (or a rising passive trajectory) to raise firms' inflation expectations if it tilts beliefs toward fiscal dominance (monetisation or real-debt erosion). Conversely, credible prospects of fiscal backing would mitigate such effects. Uruguay is an instructive setting: it operates inflation targeting, has historically elevated inflation (7–8%), and a sizable share of debt indexed to CPI or in foreign currency; the pandemic-related fiscal expansion was modest by international standards. At the same time, our sample displays sharp dispersion in prior debt beliefs and limited confidence in fiscal control (only 40% report trusting the government to keep the fiscal situation under control), making ex-ante responses ambiguous.

Our main conclusions are mainly three. First, neither T1 nor T2 produced a statistically significant change in the *average* one-year inflation forecast relative to the control. This moderate aggregate response is consistent with the information rigidities documented in previous studies (Coibion and Gorodnichenko, 2015; Mankiw and Reis, 2002). Second, behind the average, we found substantial *heterogeneity*: firms that had *underestimated* debt revised their expectations upward after the treatment, while those that had *overestimated* debt revised them downward, in line with Bayesian learning; firms closest to reality barely updated their forecasts. We also found broader responses among companies that consider inflation to be very relevant to their business, in line with rational inattention models, according to which the higher the stakes, the greater the processing (Gabaix, 2020). Third, the treatments reassigned the mass of subjective probability among the different financing scenarios: treated firms increased the probability of conventional fiscal tightening (spending cuts) and reduced the probability of inflationary financing, especially when prior beliefs about debt were pessimistic. Thus, fiscal news can reshape the perceived distribution of outcomes—anchoring extreme risks—without changing point forecasts.

We contribute to three literatures. (i) On expectations formation, we provide firm-level evidence of information frictions and belief updating mediated by priors and stakes (Coibion and Gorodnichenko, 2015; Gabaix, 2020; Andre et al., 2022). (ii) On fiscal communication and credibility, we show that transparent debt statistics and passive projections can causally alter firms' beliefs about future policy even when short-run inflation point forecasts remain unchanged (Hayo and Neuenkirch, 2023; Mertens and Montiel Olea, 2022). (iii) On experimental macro, we extend household-focused fiscal RCTs (Coibion et al., 2021; Grigoli and Sandri, 2023) to firms, documenting that fiscal information chiefly operates by shifting scenario probabilities. The remainder of the paper details the experimental design and data (Section 2), empirical strategy (Section 2), results (Section 4), and main conclusions (Section 5).

2 Experimental Design and Data

We implemented the experiment in the June 2025 wave of Uruguay's Business Inflation Expectations Survey, which is a monthly panel survey of non-financial firms. The survey is conducted by the National Institute of Statistics (INE) on behalf of the Central Bank of Uruguay (BCU) on a monthly basis, since October 2009. It is sent to 400 firms, with an average response rate of 71%. In June 2025, 315 firms completed the survey (after data cleaning). This survey is representative of the non-financial private sector and collects information on companies with more than 100 employees in all urban centers across the country.

Treatment groups. Each respondent was randomly assigned to one of three groups: Control, Treatment 1, or Treatment 2. Treatment 1 ("Debt only") showed respondents a statement that read: "According to official data, Uruguay's gross public debt is 57% of GDP." Treatment 2 ("Debt + Projection") showed the same statement about debt followed by a passive debt projection of 67% of GDP for 2029, made by the Fiscal Advisory Council. The control group received no additional information and continued with the survey as usual. All groups were asked the same set of questions. By comparing the results between the treatment groups and the control group, we identified the causal effect of providing the debt information, and by comparing treatment 2 with treatment 1, we can assess the incremental effect of including a forward-looking perspective.

The survey asked several key questions immediately before providing the information and then repeated some of those questions after treatment.[1] In particular, just before

[1]The complete questionnaire is presented in the Appendix A.1.

the intervention, respondents provided:

- (i) their point forecast of CPI inflation for the next 12 months ($E_i[\pi_{i,0,12}]$, where the subscript 0 denotes the pre-treatment forecast for the 0 to 12 month horizon).
- (ii) the probability they assigned to 24-month inflation falling within the Central Bank's target range of 3-6% (this probability can be interpreted as a measure of confidence in the BCU over the monetary policy horizon).
- (iii) their current estimate of the level of public debt relative to GDP.
- Their confidence that the BCU will maintain control over inflation and that the government will keep the fiscal situation under control.

Immediately after treatment (or at the equivalent point for the control group), respondents were asked to provide:

- (i) their revised point forecast for CPI inflation over the next 12 months ($E_i[\pi_{i,1,12}]$, the post-treatment forecast for the 1- to 12-month horizon).
- (ii) their opinion on how the government will finance its budget deficits in the future. For the latter, firms chose one of three options they considered to be the main way to address fiscal imbalances: *spending cuts* (i.e., reducing the deficit by cutting public spending or raising taxes), *inflationary financing* (financing deficits by printing money, leading to higher inflation), or *no significant measures* (continuing to accumulate debt without major adjustments). We denote by $E_i(\text{FA})$ a dummy variable indicating that the firm expects fiscal tightening ("fiscal tightening" through spending cuts), by $E_i(\uparrow \pi)$ a dummy variable indicating that an increase in inflation is expected, and by $E_i(\text{no change})$ a dummy variable indicating that no measures are expected. These three outcomes are mutually exclusive and cover the respondent's subjective opinion on the most likely mode of fiscal financing. They were only obtained once, after treatment, as they refer to prospective beliefs about policy and not to a before-and-after comparison.

From these survey responses, our primary outcome of interest is the *change* in the one-year inflation expectation, $\Delta E_i[\pi_{i,1,12}] = E_i[\pi_{i,1,12}] - E_i[\pi_{i,0,12}]$. This measures how much the firm revised its 12-month inflation forecast after receiving the information. In addition, we analyze the post-treatment probabilities $E_i(\text{FA})$, $E_i(\uparrow \pi)$, and $E_i(\text{no change})$ as outcomes, recognizing that the treatments might reallocate probability among these scenarios. For completeness, we also verify that the treatment groups did not differ in their *pre*-treatment expectations ($E_i[\pi_{i,0,12}]$ and the 24-month target-

band probability) or other characteristics, as a check of successful randomization.

2.1 Descriptive statistics

Table 1 presents summary statistics for the main variables across the control and treatment groups.

Table 1: Descriptive statistics by group

	Control			Treatment 1			Treatment 2			All firms		
Variable	Obs	Mean	S.D.	Obs	Mean	S.D.	Obs	Mean	S.D.	Obs	Mean	S.D.
$E_i[\pi_{i,0,12}]$	106	6.28	1.41	104	6.32	2.17	105	6.29	1.47	315	6.30	1.71
$E_i[\pi_{i,1,12}]$	106	6.31	1.29	104	6.27	2.21	105	6.26	1.47	315	6.28	1.70
$\triangle E_i[\pi_{i,1,12}]$	106	0.03	0.48	104	-0.05	0.95	105	-0.03	0.52	315	-0.02	0.68
$P_i(\pi_{24} \in [3,6])$	106	59.68	31.25	104	61.70	30.28	105	64.01	31.33	315	61.79	30.91
IR_i	106	0.70	0.46	104	0.77	0.42	105	0.72	0.45	315	0.73	0.44
$Debt/GDP_{i,0}$	106	56.37	20.64	104	58.30	15.47	105	56.32	20.12	313	56.99	18.85
$FS_{i,1}$	106	-0.63	20.64	104	1.30	15.47	105	-0.68	20.12	313	-0.01	8.85
TCB_i	106	0.55	0.50	104	0.54	0.50	105	0.56	0.50	315	0.55	0.50
$TGov_i$	106	0.38	0.49	104	0.45	0.50	105	0.36	0.48	315	0.40	0.49
DU_i	106	0.25	0.44	104	0.17	0.38	105	0.20	0.40	315	0.21	0.41
DO_i	106	0.55	0.50	104	0.41	0.49	105	0.42	0.50	315	0.46	0.50
$E_i(FA)$	106	0.48	0.50	104	0.56	0.50	105	0.54	0.50	315	0.53	0.50
$E_i(\uparrow \pi)$	106	0.24	0.43	104	0.25	0.44	105	0.28	0.45	315	0.25	0.44
E(No change)	106	0.26	0.44	104	0.19	0.40	105	0.18	0.39	315	0.21	0.41

Where $E_i[\pi_{i,0,12}]$ is the *prior* inflation expectation for the next twelve months, answered immediately *before* the treatment. $E_i[\pi_{i,1,12}]$ is the *posterior* inflation expectation for the next twelve months, answered immediately *after* the treatment. $\triangle E_i[\pi_{i,1,12}]$ is the change in the inflation expectation, the difference between the *posterior* and the *prior* expectations. $P_i(\pi_{24} \in [3,6])$ is the probability assigned to the fact that the inflation expectation would be inside the Central Bank's inflation target range in the monetary policy horizon, this is 24 months ahead.This question was answered *before* the treatment. IR_i is the inflation relevance for the firm. is a dummy variable that takes value one if the firm answered that a return to an inflation rate of around 8% will have a *negative* or *very negative* impact for the firm. $Debt/GDP_{i,0}$ is the answer of the firm to the question *"What do you think is the level of public debt as a percentage of GDP (Gross Domestic Product)?"*. This question was answered *before* the treatment. $FS_{i,1}$ is the fiscal surprise for the firm, this is the difference between the answered provided by the firm, and the real $Debt/GDP$ ratio of 57%, provided by both treatments. TCB_i is the trust in the Central Bank. Is a dummy variable that takes value 1 if the firm

answered that they are *confident* or *very confident* to the following question: *"How confident are you that the Central Bank will act independently to control inflation?"*. This question was answered *before* the treatment. $TGov._i$ is the trust in the Government to control the fiscal situation. Is a dummy variable that takes value 1 if the firm answered that they are *confident* or *very confident* to the following question: *"How confident are you that the government will keep the fiscal situation under control?"*. This question was answered *before* the treatment. DU_i is a dummy variable that takes value 1 if the firm *underestimated* the $Debt/GDP$ ratio more than 3 p.p. this implies being in the third tercel of the variable $FS_{i,1}$. DO_i is a dummy variable that takes value 1 if the firm *overestimated* the $Debt/GDP$ ratio more than 3 p.p. this implies being in the first tercel of the variable $FS_{i,1}$. $E_i(FA)$ this dummy variable takes value 1 if the firm answered that the fiscal situation will be controlled mainly through a reduction in the fiscal deficit. This answered was given *after* the treatment. $E_i(\uparrow \pi)$ this dummy variable takes value 1 if the firm answered that the fiscal situation will be controlled mainly through monetary issuance, this is through inflation. This answered was given *after* the treatment. E(No change) this dummy variable takes value 1 if the firm answered that the fiscal situation will It will not be controlled. This answered was given *after* the treatment.

The average *prior* 12-month inflation expectation ($E_i[\pi_{i,0,12}]$) was about 6.3%, with no significant differences across groups (6.28% in Control, 6.32% in Treatment 1, 6.29% in Treatment 2). Thus, on the eve of the treatment, firms on average expected inflation to remain around the upper end of the Central Bank's target range (which is 6%). The cross-sectional standard deviation of these expectations was about 1.7 percentage points, indicating considerable disagreement.

$E_i[\pi_{i,1,12}]$ is the *posterior* inflation expectation for the next twelve months, answered immediately *after* the treatment. Consequently, $\triangle E_i[\pi_{i,1,12}]$ is the change in the inflation expectation, the difference between the *posterior* and the *prior* expectations. The change in the inflation expectations is small, but this change was on average positive for the control group and negative for both treated groups, with a high disagreement.

The probability that 24-month-ahead inflation will be within 3–6% was around 62% on average, reflecting that many firms viewed the inflation target as only partially credible. Several firm-level covariates were measured prior to the treatments: *Inflation relevance* (IR_i) is an indicator for whether the firm reported that a return to 8% inflation (roughly the pre-pandemic rate) would have a negative or very negative impact on its business. About 73% of firms in our sample are in this high-inflation-relevance category,

suggesting that most firms perceive inflation as an important factor for their costs and planning.

Trust in the Central Bank (TCB_i) is a dummy variable for whether the firm is confident or very confident that the Central Bank will act independently to control inflation; 55% of firms expressed such confidence. *Trust in Government's fiscal control* ($TGov_i$) is a dummy variable for whether the firm is confident or very confident that the government will keep the fiscal situation under control (40% responded positively on this). We interpret $TGov_i$ as a proxy for perceived fiscal credibility.

We also measure each firm's prior belief about the debt-to-GDP ratio: before the information was given, the survey asked, *"What do you think is the current level of public debt as a percent of GDP?"* We denote this belief as $Debt/GDP_{i,0}$. Interestingly, despite official data putting debt at 57%, firms' answers varied widely: the sample mean was 57.0 with a standard deviation of 18.9, and many respondents were off by large margins.

We define a *fiscal surprise* variable (FS_i) as the difference between the firm's prior belief and the actual 57% figure (i.e. $FS_i = Debt/GDP_{i,0} - 57$). By construction, FS_i is positive for firms that overestimated the debt (thought debt was higher than 57) and negative for those that underestimated it.[2] The distribution of FS_i was roughly symmetric around zero (the full-sample mean was -0.01), but the treatment groups showed slight differences due to sampling variability (mean FS_i was -0.63 in Control, $+1.30$ in Treatment 1, and -0.68 in Treatment 2). None of these differences is statistically significant (as confirmed by regressing FS_i on treatment dummies (see Table 3 in Appendix).

Finally, using the FS_i distribution, we construct two indicators to flag firms with extreme misperceptions: DU_i ("debt underestimate") equals 1 for firms who underestimated the debt level by more than 3 percentage points (this corresponds to the upper third of the FS_i distribution, i.e. the most optimistic beliefs), and DO_i ("debt overestimate") equals 1 for firms who overestimated debt by more than 3 p.p. (the lower third of FS_i, the most pessimistic beliefs). In our sample, 21% of firms are classified as $DU_i = 1$ and 46% as $DO_i = 1$, indicating that significantly more firms overestimated public debt than underestimated it.

[2]Figure 1 presents the histogram of the variable.

2.2 Pre-treatment characteristics

We perform some statistical tests to check that there are no biases in the selection of our treatment groups. We regress key variables in our analysis against dummies referring to each of the selected groups before the treatments: 12-month and 24-month inflation expectations, prior belief about public debt, institutional trust and a proxy of ex-ante credibility and inflation relevance for the firm.

If there is no bias in the selection of our treatment groups, the treatment dummies should have no statistically significant effect on the selected pre-treatment outcome variables. To test whether this is indeed the case, we estimated the following regression by ordinary least squares (OLS):

$$Y_i = \alpha + \beta_j \, T_{i,j} + \varepsilon_i, \tag{1}$$

where our outcome variables Y_i are: 12-month, and 24-month inflation expectations, the prior about public debt, the institutional trust, the Central bank´s credibility, and the inflation relevance for the firm i; $T_{i,j}$ is a dummy variable that takes the value of 1 if the firm i belongs to the treatment group j, with $j = T1, T2$, while ε_i is an error term.

The results are presented in Appendix A.3. As anticipated, we find that belonging to any of the treatment groups does not explain any of the interest variables. These findings provide empirical evidence that the assignment of firms to treatment groups was indeed random, providing reassurance that any observed effects are indeed attributable to the information treatments.

3 Empirical Strategy

We estimate the treatments effects using ordinary least squares (OLS). For firm i, let $\triangle E[\pi_{i,12}]$ denote the change on its 12-month inflation expectation, i.e. its answer to Question 5 minus its response to the regular question at the beginning of the survey, then our baseline specification is:

$$\triangle E[\pi_{i,12}] = \alpha + \sum_j \beta_j \, T_{i,j} + \sum_j \delta_j X_{i,j} + \sum_j \gamma_j \, T_{i,j} X_{i,j} + \epsilon_i, \tag{2}$$

where $T_{i,j}$ is the dummy variable indicating assignment of firm i to treatment j (with the control group as the omitted category). The coefficient β_1 thus captures the causal

effect of being informed about the debt-to-GDP ratio, and β_2 captures the effect of being informed about debt plus the fiscal plan. We report Huber-White heteroskedasticity-robust standard errors. In addition, because many firms participate in multiple waves of the monthly survey, we conservatively adjust standard errors to account for potential serial correlation within firms (i.e., clustering at the firm level, which in our single-wave analysis is equivalent to using Newey-West or HAC robust errors allowing for within-firm correlation).

We are particularly interested in testing for differences in treatment effects across subgroups. To do so, we augment Eq. (2) with interaction terms, these are represented in the term $\sum_j \gamma_j \; T_{i,j} X_{i,j}$ of equation 2.

For example, to test whether firms that consider inflation very relevant ($IR_i = 1$) respond differently, we include interactions $IR_i \times T1_i$ and $IR_i \times T2_i$ alongside main effects. A significantly non-zero coefficient on an interaction term would indicate heterogeneous treatment effects with respect to that characteristic. We conduct analogous subgroup analyses for TCB_i (high vs. low trust in central bank), $TGov_i$ (trust in government's fiscal prudence), and the prior belief variables DU_i and DO_i (debt under- or over-estimators). We also examine interactions with the continuous fiscal surprise FS_i to capture how the magnitude and direction of the news (good news for those who overestimated debt, bad news for those who underestimated) affect updating.

Finally, we estimate **multinomial logit models** to evaluate what the firms expect will happen to the fiscal situation, after they received the treatment, according to their pretreatment characteristics and beliefs.

$$FP_i = \alpha + \sum_j \beta_j \; T_{i,j} + \sum_j \delta_j X_{i,j} + \sum_j \gamma_j \; T_{i,j} X_{i,j} + \epsilon_i, \tag{3}$$

Where FP_i is a discrete variable based on the answers to question $Q6$, asked after treatment, regarding the firm's fiscal outlook. If the company responded that it expects the fiscal situation to be controlled through a lower fiscal deficit, the variable takes the value 1. If the company responded that it expects the fiscal situation to generate higher inflation, the variable takes the value 2, and if the company does not expect changes in the fiscal situation, it takes the value 3. The latter is the base outcome of the estimates.

4 Results

4.1 Average Effect on Inflation Expectations

We begin with the overall impact of the treatments on firms' one-year inflation expectations. The control group's mean revision was +0.03 percentage points, essentially zero, indicating no drift in expectations over the course of the survey. The Treatment 1 group (debt info only) had a mean revision of −0.05 p.p., and the Treatment 2 group (debt+projection) −0.03 p.p. (both relative to their own prior expectations). Table 6 presents the regression estimates corresponding to these comparisons. Consistent with the raw differences, neither β_1 nor β_2 is statistically distinguishable from zero.[3]

In some specifications we also control for the baseline expectation or other covariates, but the results are virtually unchanged. We also formally cannot reject $\beta_1 = \beta_2$, i.e. the hypothesis that the forward looking information had any incremental effect beyond the debt statistic. In short, receiving information about the public debt level—whether accompanied by a projection or not—did *not* lead the average firm to revise its short-term inflation forecast.

This null result is itself notable in light of the FTPL hypothesis. There are several (non-mutually-exclusive) interpretations. First, it could reflect *inattention*: many respondents may have simply disregarded the information, perhaps considering it unrelated to short term inflation or not trusting the source. The lack of aggregate response is consistent with substantial information rigidity.

Second, it could be that different firms updated their expectations in *opposite directions*, leading to an overall cancellation. Given the diversity of prior beliefs, the same piece of news (57% debt) constitutes "good news" for those who thought debt was higher and "bad news" for those who thought it was lower. If these subgroups adjusted inflation forecasts upward and downward respectively, the net effect would be zero. We explore this possibility below and indeed find evidence of such offsetting belief revisions.

A third possibility is that one-year-ahead inflation is not the horizon at which fiscal news matters most. Firms might believe that even if high debt eventually leads to higher inflation, it will not materialize within a year. This would align with Coibion et al. (2021), who found U.S. households reacted more to information about *future* debt paths than current debt levels, affecting long-run expectations more than short-

[3] All estimations are presented in Appendix A.4

run. However, the fact that firms changed their subjective probabilities about fiscal outcomes (Section 4.3) hints that their longer-run views might indeed have shifted even if the one-year point forecast remained fixed.

4.2 Heterogeneous Effect on Inflation Expectations

We find that the impact of the fiscal information varied according to certain firm characteristics, notably the firm's perceived relevance of inflation and its level of trust in fiscal and monetary authorities. Table 7 reports treatment effects on $\Delta E[\pi_{i,1,12}]$ controlling by the importance the firm attaches to inflation. In this context, both treatments result in a reduction in expected inflation. However, the interaction between the relevance of inflation and the treatments does not generate an additional change in expectations.

Trust in institutions is not a relevant factor in explaining the null effect of treatments on the variation in average expectations. Tables 8, 9 and 10 do not show statistically significant results, neither for the trust in the Central Bank nor in Government.

Table 11 shows a positive but small and statistically significant relationship between the fiscal surprise of the firms treated and the upward revision of inflation expectations after treatment.

Firms' prior beliefs about public debt shaped their reactions to the information. The treatments essentially revealed the true debt-to-GDP ratio (57%) to all, but the surprise content of this revelation varied: some firms were surprised that debt was *lower* than they thought, whereas others were surprised that debt was *higher* than they thought. Our theoretical priors, based on Bayesian updating, are that the former group might reduce their inflation expectations (realizing the fiscal situation is not as dire as they feared), whereas the latter group might raise their expectations (upon learning the fiscal outlook is worse than assumed). This symmetric hypothesis can explain a zero average effect if the two groups are of roughly equal size and magnitude. Indeed, recall that 46% of firms significantly overestimated debt ($DO_i = 1$) while 21% significantly underestimated it ($DU_i = 1$), with the remainder having relatively moderate errors.

The heterogeneity by prior fiscal knowledge indicates that the overall null effect on expectations was an aggregation of offsetting positive and negative revisions. This underscores the importance of accounting for agents' initial information sets when evaluating the impact of new public information. If policymakers communicate a fiscal statistic to the public, its effect on inflation expectations will depend critically on what

the public believed beforehand. If most people underestimate a problem, the news will prompt upward revisions in expected inflation (as found by Grigoli and Sandri 2023), whereas if many overestimate it, the same news could actually calm inflation fears. In our firm sample, both phenomena coexisted, resulting in no net change in expected inflation but significant *reallocation of beliefs*, to which we turn next.

4.3 Probabilistic Beliefs about Fiscal Perspectives

Perhaps the most striking effects of our interventions emerge when looking at how firms altered their beliefs about the likely method of financing future deficits. Recall that after the treatments, firms chose which of three scenarios they expected: primarily fiscal adjustment (FA) via spending cuts or revenue increases, inflationary financing via money creation, or no substantial action leading to continued debt accumulation. Figure 2 illustrates the distribution of these choices by group. In the control group, firms were roughly split: about 48% expected a fiscal adjustment, 24% expected inflationary financing, and 26% expected no action. These numbers reveal a baseline concern: one in four firms already believed that future deficits would be financed by inflation, reflecting some underlying anxiety about fiscal sustainability. Information treatments changed these probabilities in important ways.

We analyze this using a multinomial logistic regression for the choice among the three financing outcomes, with "no action" as the base category. The results are reported in Tables 14 to 19 in Appendix A.5. In Table 14, Treatment 1 vs control as it yielded the clearest shifts. We find that Treatment 1 significantly increased the odds that a firm would expect a fiscal adjustment (spending cuts) relative to no action. The coefficient on $T1$ for choosing FA (over no action) is about 0.86 (which is significant at the 5% level). This corresponds to roughly an +11 percentage point change in the probability of expecting FA, off a base of 53%. In other words, after learning the 57% debt figure, more firms became convinced that the government would undertake fiscal tightening rather than continue with current fiscal policy.

The interaction between the fiscal surprise and the treatment is statistically significant (although only at 10%) and negative. This implies that, for example, if a firm greatly overestimated the level of doubt, upon learning that the debt is "only" 57% of GDP, it considers that a fiscal adjustment is not yet necessary. This is corroborated in Table 16, where the coefficient associated to the interaction of the dummy that signals those who overestimated the debt and received treatment 1, is negative and statistically significant.

Likewise, it can be seen that the probability of inflationary financing of the fiscal deficit is less likely, both in terms of the size of the coefficient and its statistical significance, although greater than the probability that there will be no changes in fiscal policy.

Table 17 shows that there is a positive relationship between trust in the Central Bank and the probability of believing in the need for fiscal adjustment, regardless of the treatment group to which the firms belong. Likewise, there is a positive relationship between the probability of thinking that fiscal adjustment is required and confidence in the government to keep the fiscal situation under control, regardless of the group to which the firms belong (see Table 18. Additionally, the interaction between trust in Government and the treatment 1 is negatively correlated with inflationary financing of the deficit.

Finally, Table 19 reports that credibility in the central bank is positively correlated with the belief that fiscal adjustment is necessary. However, the interaction between credibility in the central bank and treatment 1 presents a significant and positive coefficient for the probability of believing that there will be inflationary financing of the deficit. This is a worrying result, as it implies that bad news in the fiscal field can undermine the credibility of the central bank.

In summary, the information treatments, especially the debt-only treatment, substantially shifted firms' *beliefs about policy responses* even though their point estimates of inflation remained sticky. This finding is central to our contribution. It demonstrates that agents can internalize fiscal news in the form of changed *subjective risk assessments*—in this case, reallocating probability from a worst-case (inflationary) outcome to a best-case (fiscal reform) outcome—without necessarily altering their baseline forecast. Such behavior could be interpreted through the lens of probability weighting or mode vs. tail expectations. The modal forecast (most likely inflation outcome) might stay the same if the information mainly affects the tails of the distribution (the likelihood of a high-inflation scenario versus a stable scenario). Our data suggest exactly that: many firms moved probability mass away from the high-inflation scenario upon learning the debt figure (especially those for whom it was good news), implying a reduction in perceived tail risk. However, those changes were not enough to shift the central tendency (mean or mode) of the one-year-ahead inflation expectation at the aggregate level.

To ensure these probability shifts are not driven by unrelated noise, we note that they

align well with the content of the treatments and the heterogeneity of priors. They also were not mirrored in the control group, indicating it was indeed the new information causing the update. Finally, the result that even a simple factual statement ("debt is 57%") caused a significant repricing of scenarios is noteworthy. It highlights the potential power of straightforward fiscal transparency in influencing beliefs—an aspect perhaps underutilized compared to the extensive efforts central banks put into monetary guidance.

5 Conclusion

This paper provides the first firm-level evidence from an emerging economy on how transparent fiscal information alters inflation expectations and perceived policy risks. A single factual statement about the public-debt ratio—whether or not it was paired with a passive five-year projection—left the average one-year inflation forecast unchanged, underscoring the strength of information frictions documented elsewhere. However, the null average masked offsetting responses that match Bayesian theory: firms with overly optimistic priors raised their inflation forecasts, while firms with pessimistic priors lowered them. Crucially, the same information re-weighted firms' beliefs about how future deficits will be financed, nudging probability mass away from inflationary money creation toward orthodox adjustment.

Policy wise, the results cut both ways. On the one hand, fiscal transparency alone will not guarantee an immediate, broad-based drop in inflation expectations; inattentive or differently-informed firms may simply ignore or counterbalance the news. On the other hand, clear debt statistics can still deliver macroeconomic value by trimming worst-case inflation fears and steering expectations toward sustainable financing paths—especially where priors are wildly dispersed. For central banks, this suggests that credible fiscal reporting is a useful complement to monetary communication when anchoring expectations. Future work should test the persistence of these belief re allocations, explore their behavioral consequences for prices and wages, and replicate the design in economies with different fiscal reputations and monetary frameworks.

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A Appendix

A.1 Survey Questionnaire (English Translation)

General set–up. The add-on module for the June 2025 wave of the *Business Expectations Survey* (BES) contains **six questions**.

- **Q1–Q4** are asked to *all* firms immediately after the regular BES questions.
- Firms are then randomly and equally split into three groups:
  (a) **Control**: proceeds directly to Q5–Q6.
  (b) **Treatment 1 (T1 – Debt Only)**: first reads the information vignette below, then answers Q5–Q6.
  (c) **Treatment 2 (T2 – Debt + Projection)**: first reads a different vignette, then answers Q5–Q6.
- **Q5–Q6** are identical across the three groups.

Questions asked to the full sample (Q1–Q4).

Q1. *Impact of a return to 8 % inflation.* "If inflation were to return to levels close to 8 %, how would your firm be affected?"

a) Very negatively (—)
b) Negatively
c) No effect
d) Positively
e) Very positively

Q2. *Trust in the Central Bank's independence.* "How confident are you that the Central Bank will act independently to control inflation?" Scale 1 (Not at all confident) – 5 (Very confident)

Q3. *Trust in the Government's fiscal discipline.* "How confident are you that the Government will keep the fiscal situation under control?" Same 1–5 confidence scale as Q2.

Q4. *Perceived public debt.* "What do you think is the level of public debt as a percentage of GDP? Please provide a percentage value."

Information vignettes (randomised).

Control *No additional information.*

T1 – Debt Only "*The current public debt-to-GDP ratio is approximately 57 %.*"

T2 – Debt + Projection "*The current public debt-to-GDP ratio is approximately 57 %. In two out of three projection scenarios produced by the Fiscal Advisory Council, the debt-to-GDP ratio would be around 67 % in 2029 if current policies remain unchanged.*"

Questions asked after the vignette (Q5–Q6).

Q5. *Revision of 12-month inflation expectation.* "Earlier in this survey you stated that your expected inflation for the next 12 months was _____. Would you like to revise that figure? Please indicate your forecast for the percentage change in the CPI between [MONTH_{T}] OF [YEAR_{T}] and [$\text{MONTH}_{\text{T}-1}$] OF [$\text{YEAR}_{\text{T}+1}$]. Enter a value in percent."

Q6. *Expected way to restore fiscal balance.* "How do you think the fiscal situation will be brought under control?"

a) Mainly through a reduction of the fiscal deficit (spending cuts / higher revenues)

b) Mainly through monetary issuance (higher inflation)

c) It will *not* be brought under control

A.2 Figures

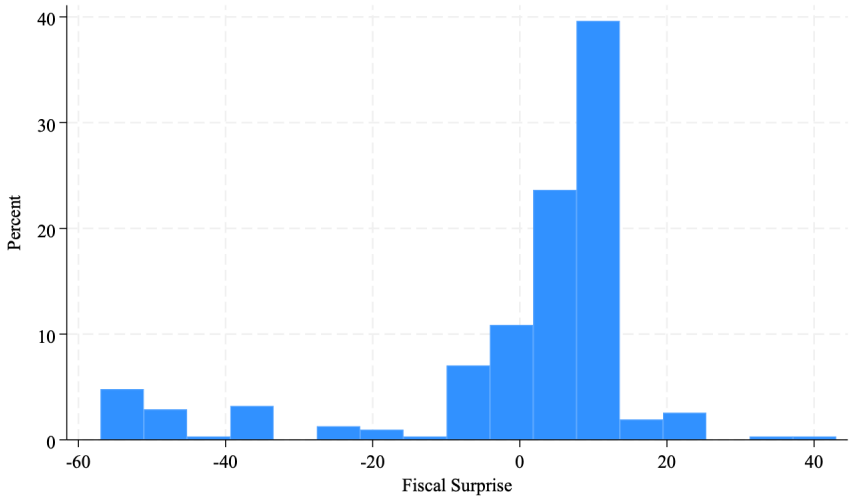

Figure 1: Fiscal Suprise

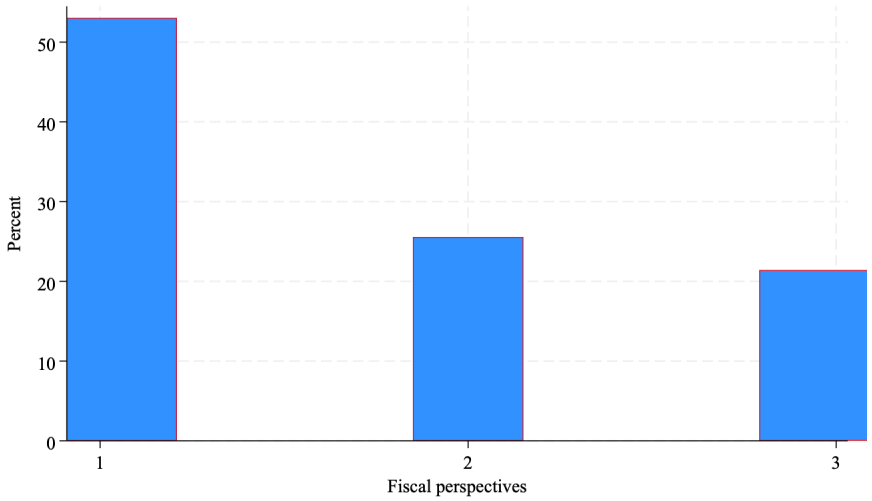

Figure 2: Fiscal Perspectives. Option **(1)** implies that the firm answered to question $Q6$ that it expect spending cuts/higher revenues; option **(2)** represents the expectation of higher inflation to restore fiscal balance; and option **(3)** are those firms that expect no changes.

A.3 Pre-treatment controls

Table 2: Pre-treatment: Inflation expectations

	$Ei[\pi_{i,0,12}]$	$E_i[\pi_{i,0,24}]$
$T_{1,i}$	0.074	0.140
	(0.254)	(0.315)
$T_{2,i}$	0.010	-0.038
	(0.198)	(0.248)
Constant	6.284***	6.555***
	(0.137)	(0.182)
N Obs.	316	316
R^2	0.000	0.001
R^2 *adj*	-0.006	-0.005
*p<0.10, ** p<0.05, *** p<0.01*		

Table 3: Pre-treatment: Public debt

	$Debt/GDP_{i,0}$
$T_{1,i}$	1.425
	(2.571)
$T_{2,i}$	-0.042
	(2.820)
Constant	56.365***
	(2.024)
N Obs.	314
R^2	0.001
R^2 *adj*	-0.005
*p<0.10, ** p<0.05, *** p<0.01*	

Table 4: Pre-treatment: Trust in CB. and Gov,

	$Trust\ in\ CB_{i,0}$	$Trust\ in\ Gov._{i,0}$
$T_{1,i}$	0.013	0.199
	(0.109)	(0.128)
$T_{2,i}$	-0.034	-0.077
	(0.124)	(0.136)
$Constant$	3.587***	3.135***
	(0.082)	(0.088)
$N\ Obs.$	314	314
R^2	0.001	0.014
$R^2\ adj$	-0.006	0.008

*p<0.10, ** p<0.05, *** p<0.01*

Table 5: Pre-treatment: Credibility and inflation relevance

	$Credibility_{i,0}$	$Inflation\ relevance_{i,0}$
$T_{1,i}$	1.526	-0.108
	(4.255)	(0.088)
$T_{2,i}$	4.330	-0.117
	(4.309)	(0.090)
$Constant$	59.679***	2.298***
	(3.036)	(0.064)
$N\ Obs.$	316	314
R^2	0.003	0.007
$R^2\ adj$	-0.003	0.000

*p<0.10, ** p<0.05, *** p<0.01*

A.4 Treatments effect on average inflation expectations updates

Table 6: Change in inflation expectations and treatments

	M1	M2	M3
$T_{1,i}$	-0.076		-0.076
	(0.104)		(0.104)
$T_{2,i}$		-0.062	-0.062
		(0.069)	(0.069)
Constant	0.027	0.027	0.027
	(0.046)	(0.046)	(0.046)
N Obs.	210	211	315
R^2	0.003	0.004	0.002
R^2 *adj*	-0.002	-0.001	-0.004

*p<0.10, ** p<0.05, *** p<0.01*

HAC robust standard errors.

Table 7: Change in inflation expectations and inflation relevance (IR)

	M4	M5	M6	M7
IR_i	0.052	-0.104	-0.104	-0.104
	(0.084)	(0.114)	(0.114)	(0.114)
$T_{1,i}$		-0.296*		-0.296*
		(0.160)		(0.160)
$T_{2,i}$			-0.214*	-0.214
			(0.128)	(0.170)
$IR_i \# T_{1,i}$		0.295		0.295
		(0.203)		(0.203)
$IR_i \# T_{2,i}$			0.214	0.214
			(0.183)	(0.183)
$Constant$	-0.056	0.100	0.100	0.100
	(0.070)	(0.103)	(0.103)	(0.103)
$N\ Obs.$	315	210	211	315
R^2	0.001	0.010	0.013	0.010
$R^2\ adj$	-0.002	-0.004	-0.001	-0.006

*p<0.10, ** p<0.05, *** p<0.01*

HAC robust standard errors.

Table 8: Change in inflation expectations and trust in Central Bank (TCB)

	M8	M9	M10	M11
TCB_i	0.056	0.020	0.020	0.020
	(0.080)	(0.091)	(0.091)	(0.091)
$T_{1,i}$		-0.117		-0.117
		(0.192)		(0.192)
$T_{2,i}$			-0.082	-0.082
			(0.091)	(0.091)
$TCB_i \# T_{1,i}$		0.075		0.075
		(0.218)		(0.218)
$TCB_i \# T_{2,i}$			0.036	0.036
			(0.136)	(0.136)
Constant	-0.049	0.017	0.017	0.017
	(0.068)	(0.058)	(0.058)	(0.058)
N Obs.	315	210	211	315
R^2	0.002	0.005	0.006	0.005
R^2 *adj*	-0.002	-0.010	-0.009	-0.012

*p<0.10, ** p<0.05, *** p<0.01*

HAC robust standard errors.

Table 9: Change in inflation expectations and credibility

	M12	M13	M14	M15
$P_i(\pi_{24} \in [3,6])$	0.001	0.001	0.001	0.001
	(0.001)	(0.001)	(0.001)	(0.001)
$T_{1,i}$		-0.020		-0.020
		(0.200)		(0.200)
$T_{2,i}$			-0.038	-0.038
			(0.165)	(0.165)
$P_i(\pi_{24} \in [3,6])\#T_{1,i}$		-0.001		-0.001
		(0.003)		(0.003)
$P_i(\pi_{24} \in [3,6])\#T_{2,i}$			-0.000	-0.000
			(0.002)	(0.002)
Constant	-0.071	-0.062	-0.062	-0.062
	(0.096)	(0.084)	(0.084)	(0.084)
N Obs.	210	210	211	315
R^2	0.002	0.005	0.010	0.005
R^2 *adj*	-0.003	-0.010	-0.004	-0.011

*p<0.10, ** p<0.05, *** p<0.01*

HAC robust standard errors.

Table 10: Change in inflation expectations and trust in Goverment (TGov.)

	M16	M17	M18	M19
$TGov._i$	-0.020	-0.016	-0.016	-0.016
	(0.080)	(0.079)	(0.079)	(0.079)
$T_{1,i}$		-0.042		-0.042
		(0.139)		(0.139)
$T_{2,i}$			-0.089	-0.089
			(0.095)	(0.095)
$TGov._i \# T_{1,i}$		-0.073		-0.073
		(0.207)		(0.207)
$TGov._i \# T_{2,i}$			0.074	0.074
			(0.135)	(0.135)
$Constant$	-0.011	0.033	0.033	0.033
	(0.048)	(0.072)	(0.072)	(0.072)
$N\ Obs.$	315	210	211	315
R^2	0.000	0.004	0.006	0.004
$R^2\ adj$	-0.003	-0.010	-0.009	-0.012

*p<0.10, ** p<0.05, *** p<0.01*

HAC robust standard errors.

Table 11: Change in inflation expectations and fiscal surprise (FS)

	M20	M21	M22	M23
FS_i	-0.000	-0.005	-0.005	-0.005
	(0.003)	(0.003)	(0.003)	(0.003)
$T_{1,i}$		-0.082		-0.082
		(0.111)		(0.111)
$T_{2,i}$			-0.058	-0.058
			(0.068)	(0.068)
$FS_i \# T_{1,i}$		0.012*		0.012**
		(0.006)		(0.005)
$FS_i \# T_{2,i}$			0.006*	0.006
			(0.003)	(0.004)
$Constant$	-0.019	0.025	0.025	0.025
	(0.039)	(0.046)	(0.046)	(0.046)
$N\ Obs.$	313	208	209	313
R^2	0.000	0.022	0.026	0.018
$R^2\ adj$	-0.003	0.007	0.012	0.002

*p<0.10, ** p<0.05, *** p<0.01*

HAC robust standard errors.

Table 12: Change in inflation expectations and debt underestimate (DU)

	M24	M25	M26	M27
DU_i	-0.019	0.167	0.167	0.167
	(0.134)	(0.127)	(0.127)	(0.127)
$T_{1,i}$		0.006		0.006
		(0.094)		(0.094)
$T_{2,i}$			-0.004	-0.004
			(0.063)	(0.063)
$DU_i \# T_{1,i}$		-0.397		-0.397
		(0.257)		(0.234)
$DU_i \# T_{2,i}$			-0.243	-0.243
			(0.235)	(0.235)
$Constant$	-0.014	-0.015	-0.015	-0.015
	(0.035)	(0.047)	(0.047)	(0.047)
$N\ Obs.$	315	210	211	315
R^2	0.000	0.014	0.016	0.012
$R^2\ adj$	-0.003	-0.000	0.002	-0.004

*p<0.10, ** p<0.05, *** p<0.01*

HAC robust standard errors.

Table 13: Change in inflation expectations and debt overestimate (DO)

	M28	M29	M30	M31
DO_i	-0.020	-0.129	-0.129	-0.129
	(0.076)	(0.094)	(0.094)	(0.094)
$T_{1,i}$		-0.201		-0.201
		(0.145)		(0.145)
$T_{2,i}$			-0.098	-0.098
			(0.109)	(0.109)
$DO_i \# T_{1,i}$		0.260		0.260
		(0.211)		(0.211)
$DO_i \# T_{2,i}$			0.047	0.047
			(0.132)	(0.132)
$Constant$	-0.009	0.098	0.098	0.098
	(0.057)	(0.074)	(0.074)	(0.074)
$N\ Obs.$	315	210	211	315
R^2	0.000	0.010	0.015	0.010
$R^2\ adj$	-0.003	-0.004	0.001	-0.007

*p<0.10, ** p<0.05, *** p<0.01*

HAC robust standard errors.

A.5 Treatments effect on fiscal perspectives

Table 14: Expected fiscal financing and fiscal surprise (FS)

	ml1	ml2	ml3	ml4
Public spending reduction				
FS_i	-0.005	0.005	0.005	0.005
	(0.009)	(0.012)	(0.012)	(0.012)
$T_{1,i}$		0.859**		0.859**
		(0.414)		(0.413)
$T_{2,i}$			0.505	0.505
			(0.356)	(0.355)
$FS_i \# T_{1,i}$		-0.082**		-0.082**
		(0.033)		(0.033)
$FS_i \# T_{2,i}$			-0.001	-0.001
			(0.019)	(0.019)
Constant	0.914***	0.596**	0.596**	0.596**
	(0.146)	(0.236)	(0.236)	(0.236)
Inflationary financing				
FS_i	-0.013	-0.012	-0.012	-0.012
	(0.010)	(0.013)	(0.013)	(0.013)
$T_{1,i}$		0.802*		0.802*
		(0.458)		(0.458)
$T_{2,i}$			0.568	0.568
			(0.409)	(0.408)
$FS_i \# T_{1,i}$		-0.063*		-0.063*
		(0.036)		(0.036)
$FS_i \# T_{2,i}$			0.010	0.010
			(0.021)	(0.021)
Constant	0.176	-0.149	-0.149	-0.149
	(0.167)	(0.281)	(0.281)	(0.281)
N Obs.	313	208	209	313

*p<0.10, ** p<0.05, *** p<0.01*

HAC robust standard errors.

The base outcome is *Option 3, "no action will be taken".*

Table 15: Expected fiscal financing and debt underestimation

	ml5	ml6	ml7	ml8
Public spending reduction				
DU_i	0.051	-0.192	-0.192	-0.192
	(0.376)	(0.555)	(0.555)	(0.554)
$T_{1,i}$		0.282		0.282
		(0.383)		(0.383)
$T_{2,i}$			0.498	0.498
			(0.402)	(0.401)
$DU_i \# T_{1,i}$		1.568		1.568
		(1.219)		(1.218)
$DU_i \# T_{2,i}$			-0.033	-0.033
			(0.865)	(0.864)
Constant	0.898***	0.644**	0.644**	0.644**
	(0.160)	(0.270)	(0.270)	(0.270)
Inflationary financing				
DU_i	0.615	0.523	0.523	0.523
	(0.404)	(0.605)	(0.605)	(0.604)
$T_{1,i}$		0.272		0.272
		(0.465)		(0.465)
$T_{2,i}$			0.655	0.655
			(0.473)	(0.472)
$DU_i \# T_{1,i}$		1.423		1.423
		(1.273)		(1.272)
$DU_i \# T_{2,i}$			-0.347	-0.347
			(0.934)	(0.934)
Constant	0.036	-0.272	-0.272	-0.272
	(0.189)	(0.333)	(0.333)	(0.332)
N Obs.	313	208	209	314

*p<0.10, ** p<0.05, *** p<0.01*

HAC robust standard errors.

The base outcome is *Option 3, "no action will be taken".*

Table 16: Expected fiscal financing and debt overestimation

	ml9	ml10	ml11	ml12
Public spending reduction				
DO_i	-0.416	0.438	0.438	0.438
	(0.291)	(0.476)	(0.476)	(0.475)
$T_{1,i}$		1.308**		1.308**
		(0.541)		(0.541)
$T_{2,i}$			0.952*	0.952*
			(0.500)	(0.499)
$DO_i \# T_{1,i}$		-1.624**		-1.624**
		(0.723)		(0.722)
$DO_i \# T_{2,i}$			-0.948	-0.948
			(0.718)	(0.718)
$Constant$	1.109***	0.357	0.357	0.357
	(0.207)	(0.349)	(0.349)	(0.349)
Inflationary financing				
DO_i	-0.401	-0.241	-0.241	-0.241
	(0.333)	(0.554)	(0.554)	(0.553)
$T_{1,i}$		0.887		0.887
		(0.588)		(0.588)
$T_{2,i}$			0.336	0.336
			(0.562)	(0.562)
$DO_i \# T_{1,i}$		-1.014		-1.014
		(0.836)		(0.835)
$DO_i \# T_{2,i}$			0.416	0.416
			(0.811)	(0.810)
$Constant$	0.373	-0.000	-0.000	0.000
	(0.234)	(0.379)	(0.379)	(0.379)
N Obs.	313	208	209	314

*p<0.10, ** p<0.05, *** p<0.01*

HAC robust standard errors.

The base outcome is *Option 3, "no action will be taken".*

Table 17: Expected fiscal financing and trust in Central Bank

	ml13	ml14	ml15	ml16
Public spending reduction				
TCB_i	1.244***	1.194**	1.194**	1.194**
	(0.305)	(0.493)	(0.493)	(0.492)
$T_{1,i}$		0.613		0.613
		(0.480)		(0.480)
$T_{2,i}$			0.268	0.268
			(0.498)	(0.498)
$TCB_i \# T_{1,i}$		-0.227		-0.227
		(0.731)		(0.731)
$TCB_i \# T_{2,i}$			0.435	0.435
			(0.756)	(0.755)
Constant	0.293	-0.000	0.000	0.000
	(0.200)	(0.334)	(0.334)	(0.334)
Inflationary financing				
TCB_i	0.699	0.668	0.668	0.668
	(0.541)	(0.563)	(0.563)	(0.563)
$T_{1,i}$		0.238		0.238
		(0.555)		(0.555)
$T_{2,i}$			0.613	0.613
			(0.529)	(0.528)
$TCB_i \# T_{1,i}$		0.261		0.261
		(0.835)		(0.834)
$TCB_i \# T_{2,i}$			-0.102	-0.102
			(0.838)	(0.837)
Constant	-0.121	-0.405	-0.405	-0.405
	(0.220)	(0.374)	(0.374)	(0.373)
N Obs.	314	209	209	314

*p<0.10, ** p<0.05, *** p<0.01*

HAC robust standard errors.

The base outcome is *Option 3, "no action will be taken"*.

Table 18: Expected fiscal financing and trust in Government

	ml17	ml18	ml19	ml20
Public spending reduction				
$TGov._i$	1.207***	1.831***	1.831***	1.831***
	(0.326)	(0.610)	(0.610)	(0.609)
$T_{1,i}$		0.732		0.732
		(0.452)		(0.452)
$T_{2,i}$			0.652	0.652
			(0.427)	(0.427)
$TGov._i \# T_{1,i}$		-1.218		-1.218
		(0.807)		(0.806)
$TGov._i \# T_{2,i}$			-0.615	-0.615
			(0.872)	(0.872)
$Constant$	0.463***	0.041	0.041	0.041
	(0.179)	(0.286)	(0.286)	(0.286)
Inflationary financing				
$TGov._i$	0.190	1.038	1.038	1.038
	(0.381)	(0.691)	(0.691)	(0.691)
$T_{1,i}$		0.804*		0.804*
		(0.487)		(0.487)
$T_{2,i}$			0.728	0.728
			(0.462)	(0.462)
$TGov._i \# T_{1,i}$		-1.631*		-1.631*
		(0.940)		(0.939)
$TGov._i \# T_{2,i}$			-0.861	-0.861
			(0.993)	(0.992)
$Constant$	0.129	-0.345	-0.345	-0.345
	(0.192)	(0.318)	(0.318)	(0.318)
N Obs.	313	208	209	314

*p<0.10, ** p<0.05, *** p<0.01*

HAC robust standard errors.

The base outcome is *Option 3, "no action will be taken".*

Table 19: Expected fiscal financing and Central Bank's credibility

	ml21	ml22	ml23	ml24
Public spending reduction				
$P_i(\pi_{24} \in [3,6])$	0.011**	0.008	0.008	0.008
	(0.006)	(0.008)	(0.008)	(0.008)
$T_{1,i}$		0.044		0.044
		(0.762)		(0.762)
$T_{2,i}$			0.664	0.664
			(0.797)	(0.796)
$P_i(\pi_{24} \in [3,6])\#T_{1,i}$		0.008		0.008
		(0.011)		(0.011)
$P_i(\pi_{24} \in [3,6])\#T_{2,i}$			-0.003	-0.003
			(0.012)	(0.011)
$Constant$	0.132	0.079	0.079	0.079
	(0.378)	(0.559)	(0.559)	(0.559)
Inflationary financing				
$P_i(\pi_{24} \in [3,6])$	0.004	-0.007	-0.007	-0.007
	(0.006)	(0.008)	(0.008)	(0.008)
$T_{2,i}$		-1.071		-1.071
		(0.813)		(0.812)
$T_{2,i}$			-0.083	-0.083
			(0.819)	(0.818)
$P_i(\pi_{24} \in [3,6])\#T_{1,i}$		0.026**		0.026**
		(0.012)		(0.012)
$P_i(\pi_{24} \in [3,6])\#T_{2,i}$			0.011	0.011
			(0.012)	(0.012)
$Constant$	-0.169	0.293	0.293	0.293
	(0.392)	(0.520)	(0.520)	(0.520)
N Obs.	313	208	209	314

*p<0.10, ** p<0.05, *** p<0.01*

HAC robust standard errors.

The base outcome is *Option 3, "no action will be taken".*