Discussion on:

Perceptions of Public Debt and Policy Expectations: Evidence from Cross Country Surveys

By Bianchi, Dabla-Norris and Khalid

FLAR – CAF: XXI Annual Economic Studies Conference

Juan José Ospina Tejeiro

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What the paper does

The Central Question

How do people's knowledge, beliefs, and past experiences with fiscal consolidation shape their expectations about taxes, spending, and government debt?

The Evidence Base

Large-scale surveys of 27,000+ respondents across 13 countries (9 advanced + 4 emerging economies) conducted April–May 2024 via Ipsos.

Structure of the paper

The paper is organized as follows:

1. What people know
2. What people believe & expect
3. How past experiences shape beliefs & expectations
4. How information about 1) changes 2) interacted with 3)

A few main results

Finding 1 · The Public Doesn't Understand Public Debt

- Most people struggle to connect taxes, spending, deficits and debt.
- In high-debt countries, respondents systematically underestimate their debt
- Who understands: older individuals who own financial assets

A few main results

Finding 2 · People Expect Tax Hikes and to Bear the Cost

- People expect tax increases far more than spending cuts.
- Trust in government (not fiscal knowledge) is the dominant predictor of spending-cut expectations.
- People across income levels expect to personally bear the cost.

Finding 3 · Lived Experience of Consolidation Leaves a Lasting Scar

Those with more consolidation experience are more pessimistic across the board:

- Higher taxes and inflation
- Less trust in government
- They expect to personally bear the cost

Finding 4 · Information Shifts Expectations — Differently by Debt Trajectory

- In rising-debt countries: learning actual debt levels raises expectations of spending cuts.
- In stable-debt countries: it lowers fears of tax hikes.
- Prior consolidation experience amplifies both effects.

My reading of the paper: Great paper, very timely in times of high and increasing public debt world wide

My interpretation: they are doing for fiscal policy what literature & central banks have done for monetary policy:

Elicit expectations about fiscal policy variables

Understand how those expectations are formed and their determinants

Link expectations to knowledge, beliefs, and experiences

Study how information changes those expectations

The link to experiences is important for future fiscal consolidations (expectations about their form and acceptance):

“The anti-inflation bias in Germany is thought to result from people remembering the hyperinflation of the 1920s.” — Shiller (1996)

Inflation expectations depend on people’s shopping experience — D’Acunto et al. (2019)

My reading of the paper: challenging topic with multiple implications

Super challenging, new topic…

Fiscal policy’s concepts are even more elusive than inflation’s

People are closer to inflation than to fiscal variables (even taxes!)

With lots of ramifications/implications:

- Modeling & forecasting
- Fiscal transparency & communication
- Education
- Design of fiscal consolidations
- Political economy: who bears the costs & trust in governments

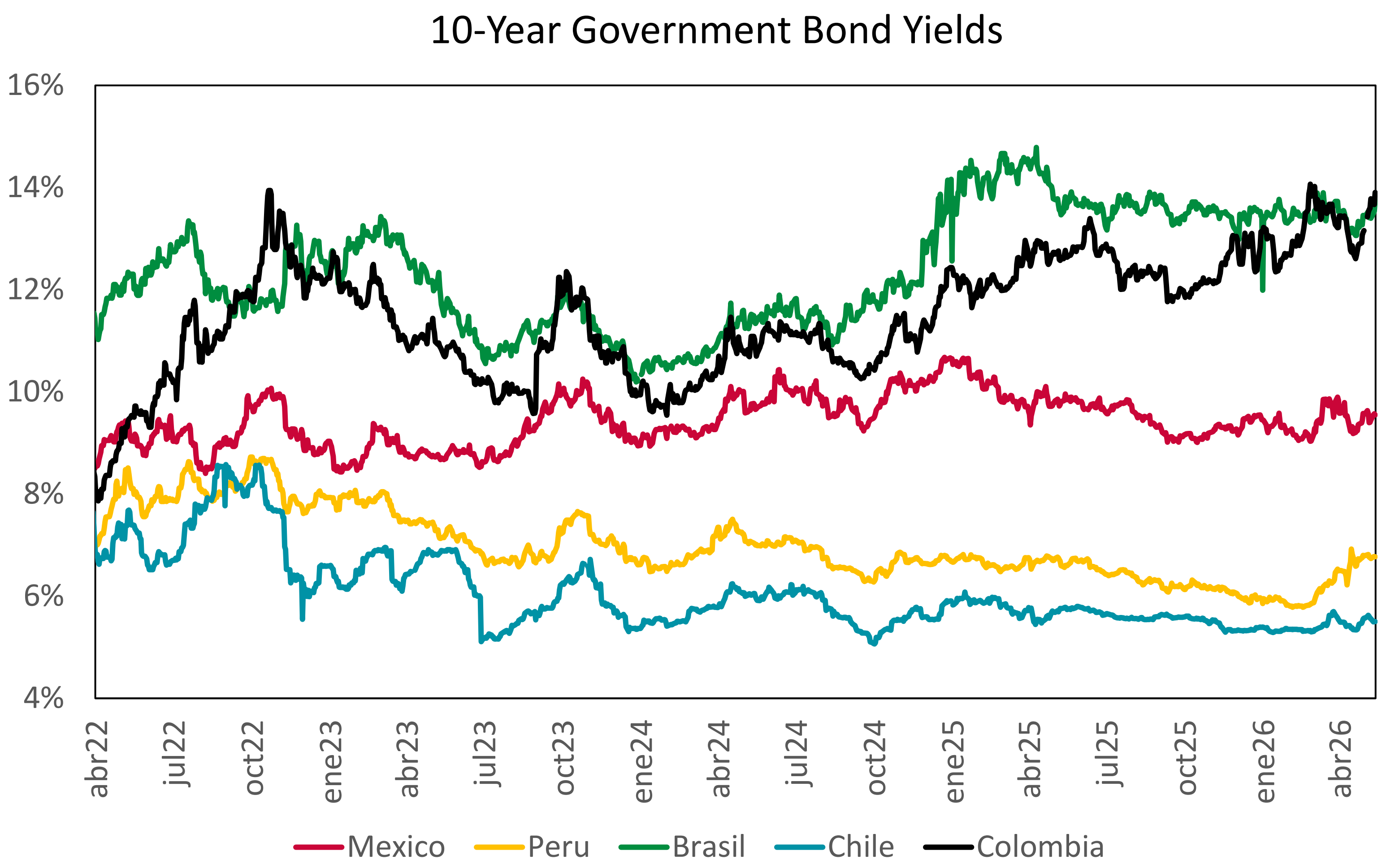
But the paper finds that some results are country-specific, which makes it hard to directly apply all the results to your own country.

The paper is organized as follows

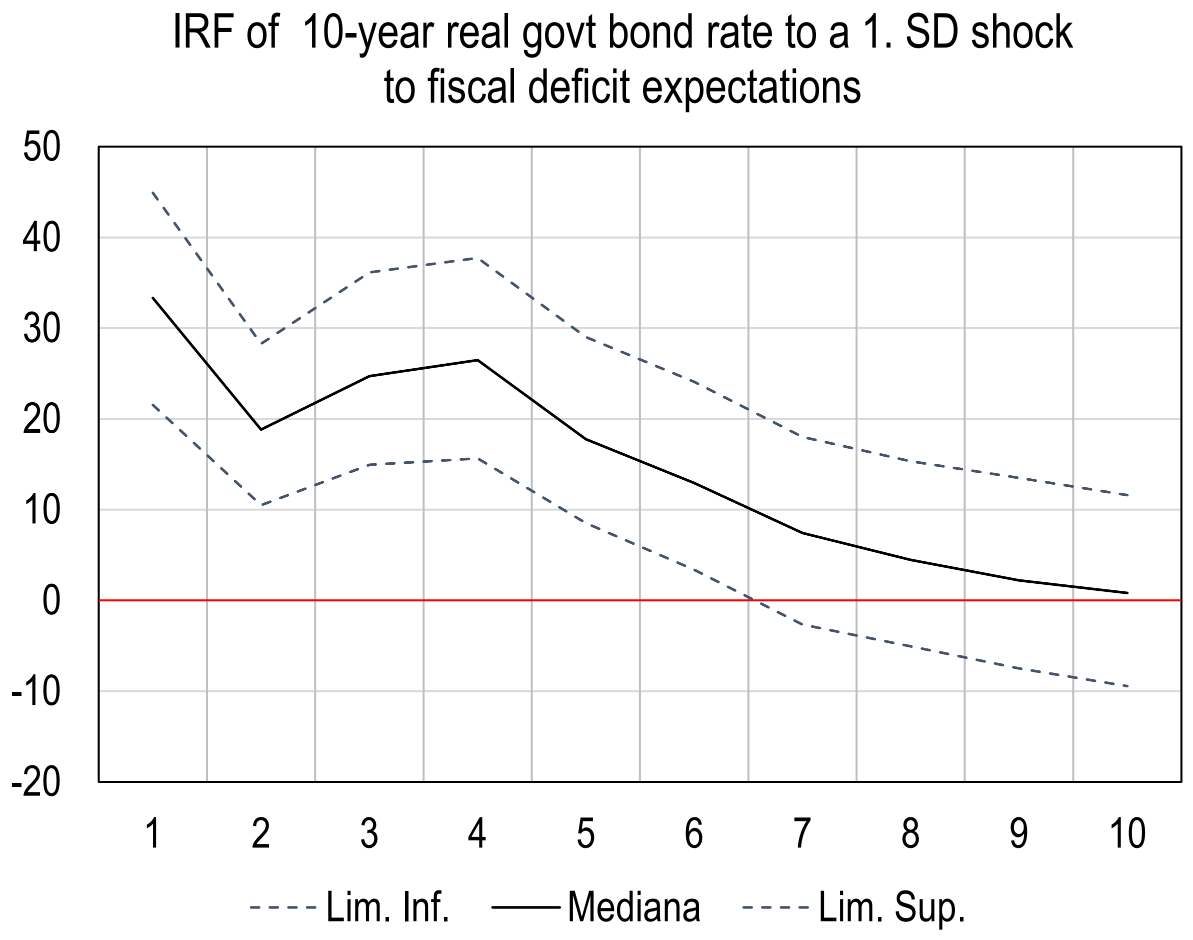
1	2	3	4
What people know	What people believe & expect	How past experiences shape beliefs & expectations	How information about 1) changes 2) interacted with 3)

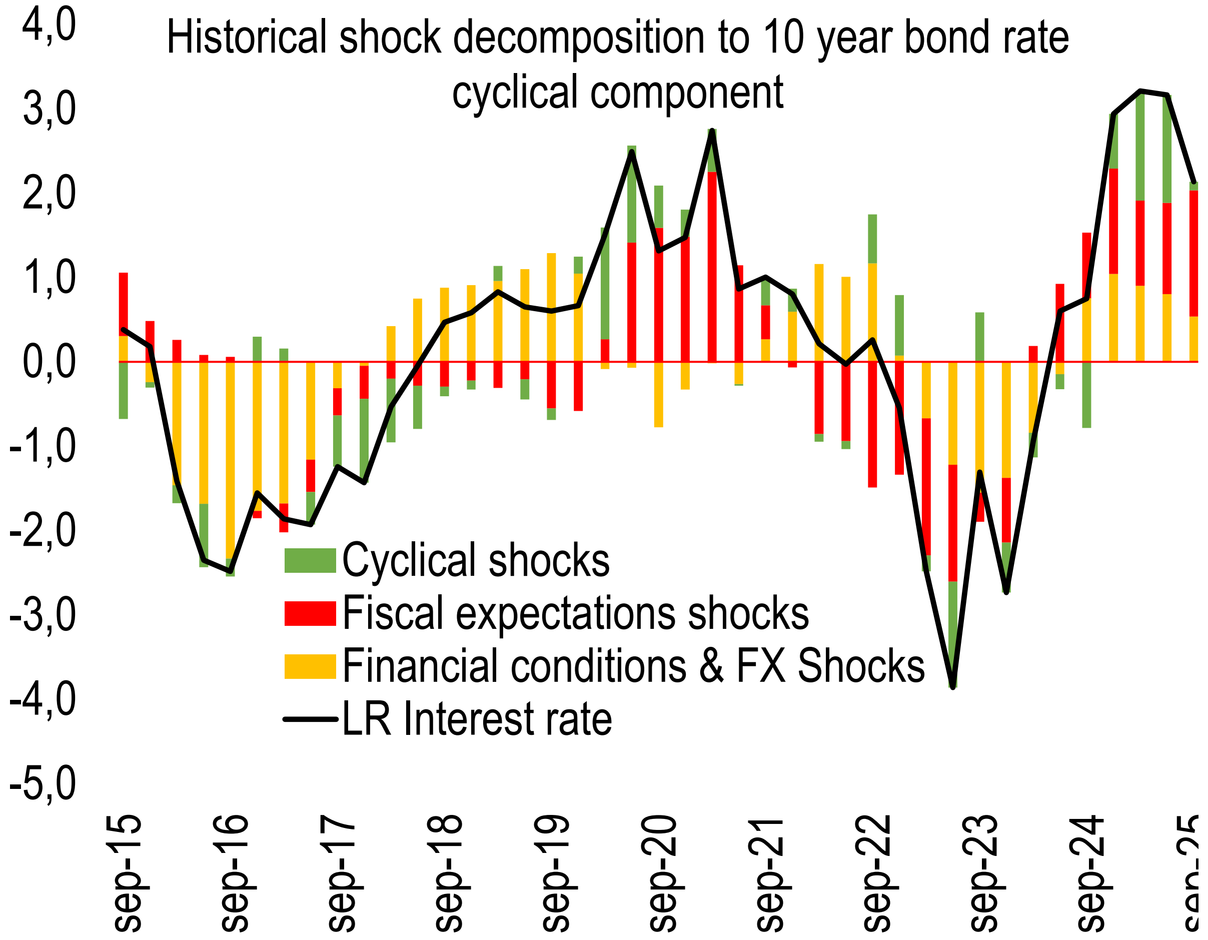
→ I will try to go through some elements using Colombia's case

Why do we care? Colombia's financing costs have been rising, in part due to expectations of higher fiscal deficits



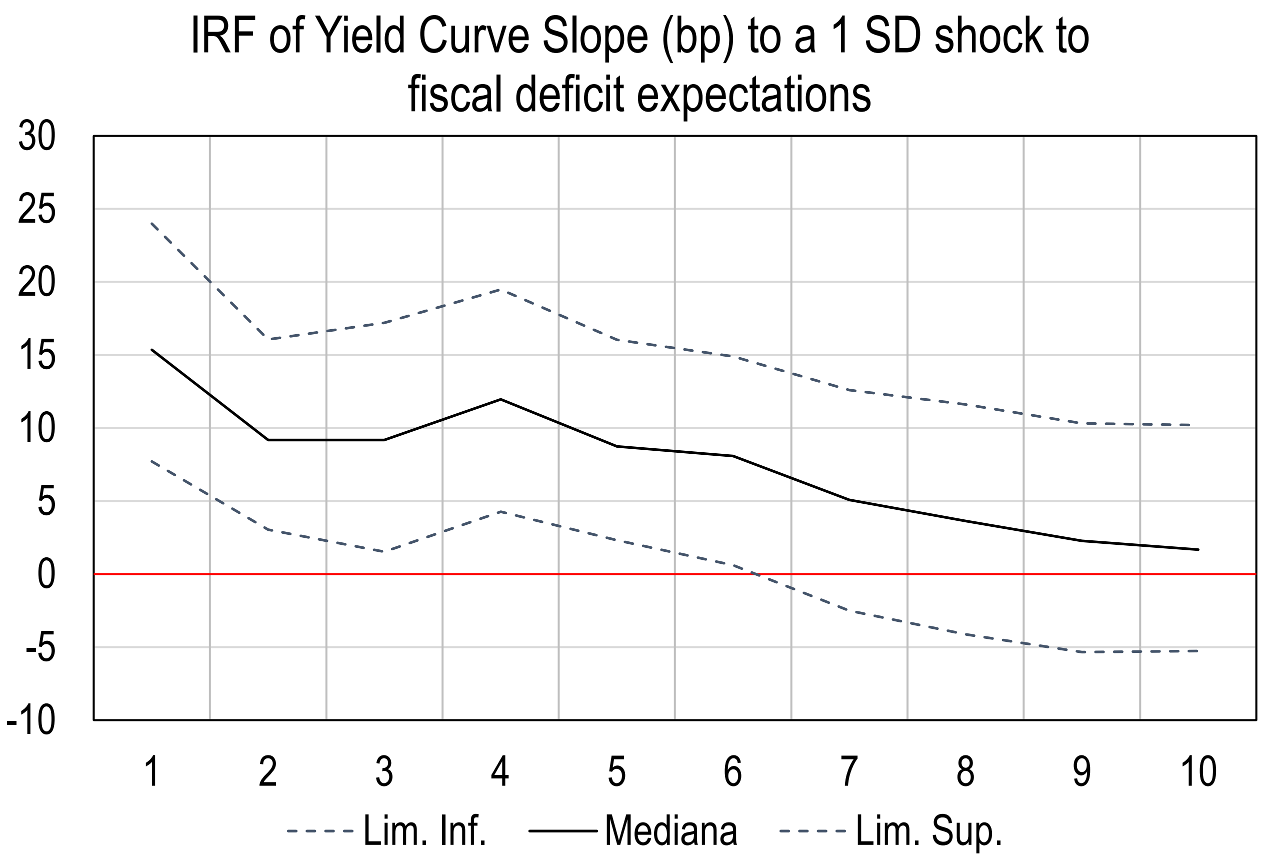
Why do we care? We have evidence that fiscal deficit expectations affect the level and the structure of financing costs for the government and the economy

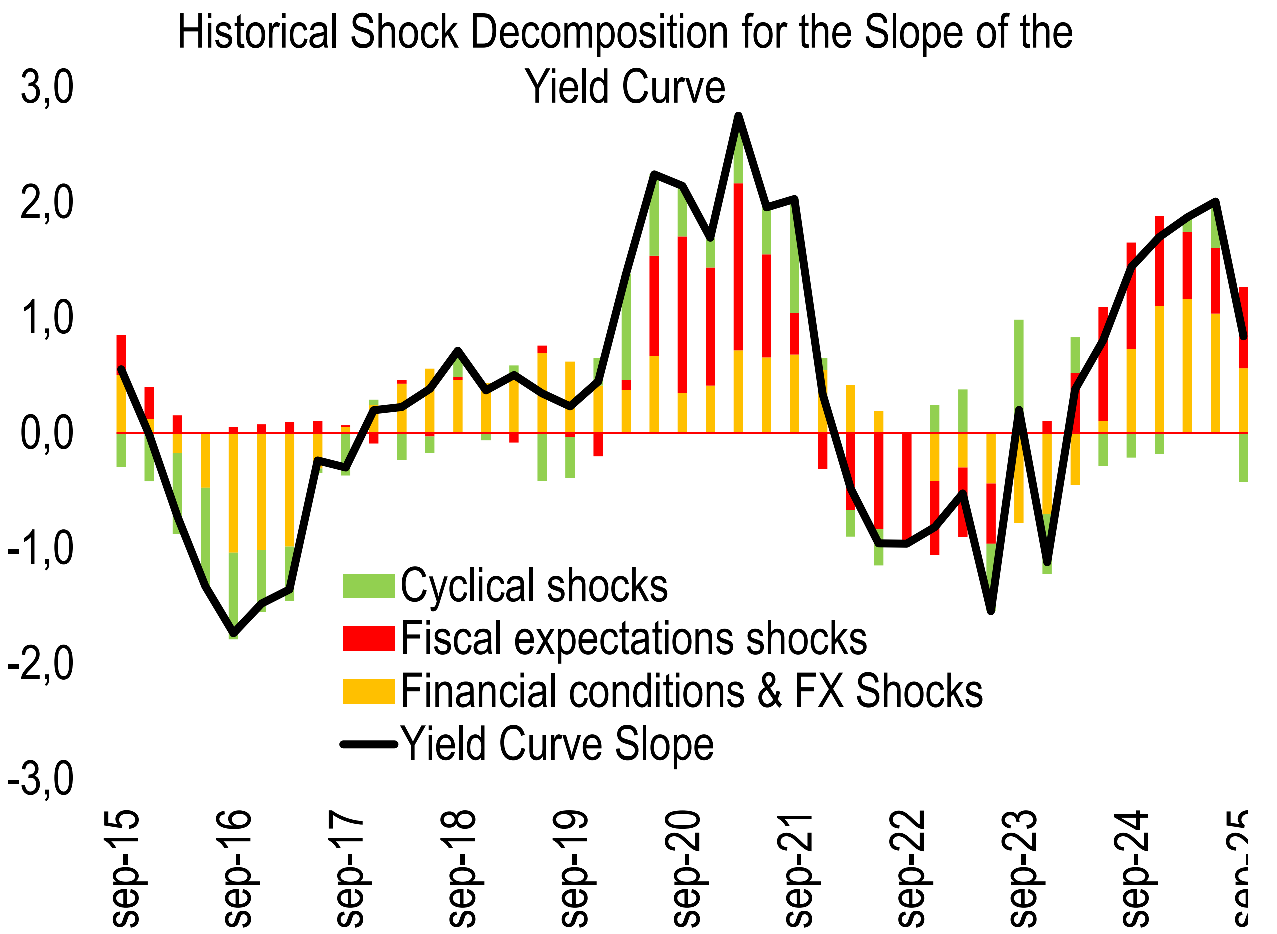




Reference: Romero, Vargas-Herrera (2026)

Why do we care? The effect of fiscal deficit on the financing structure of the government also has implications for monetary policy: measures of inflation expectations, the neutral rate, and local financial conditions





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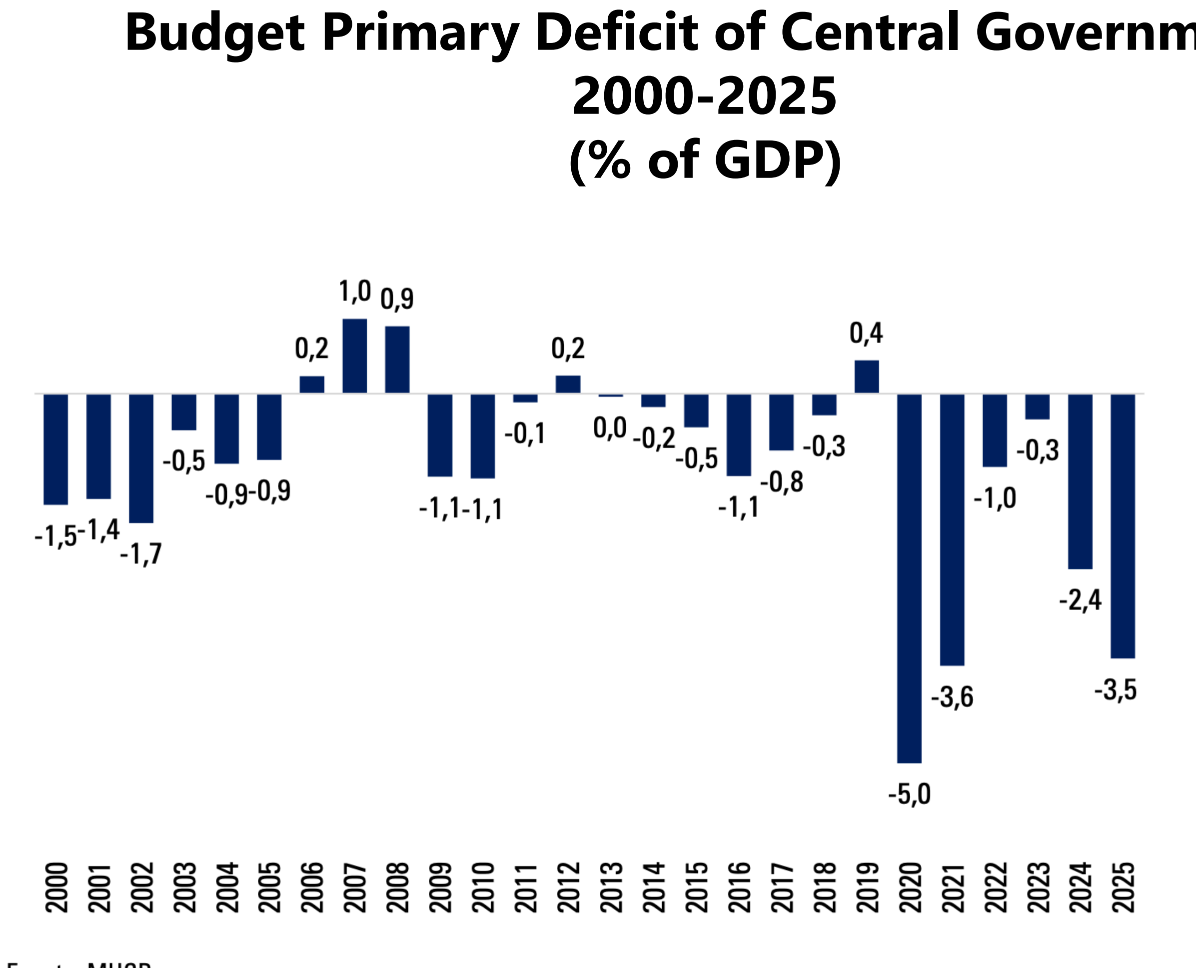
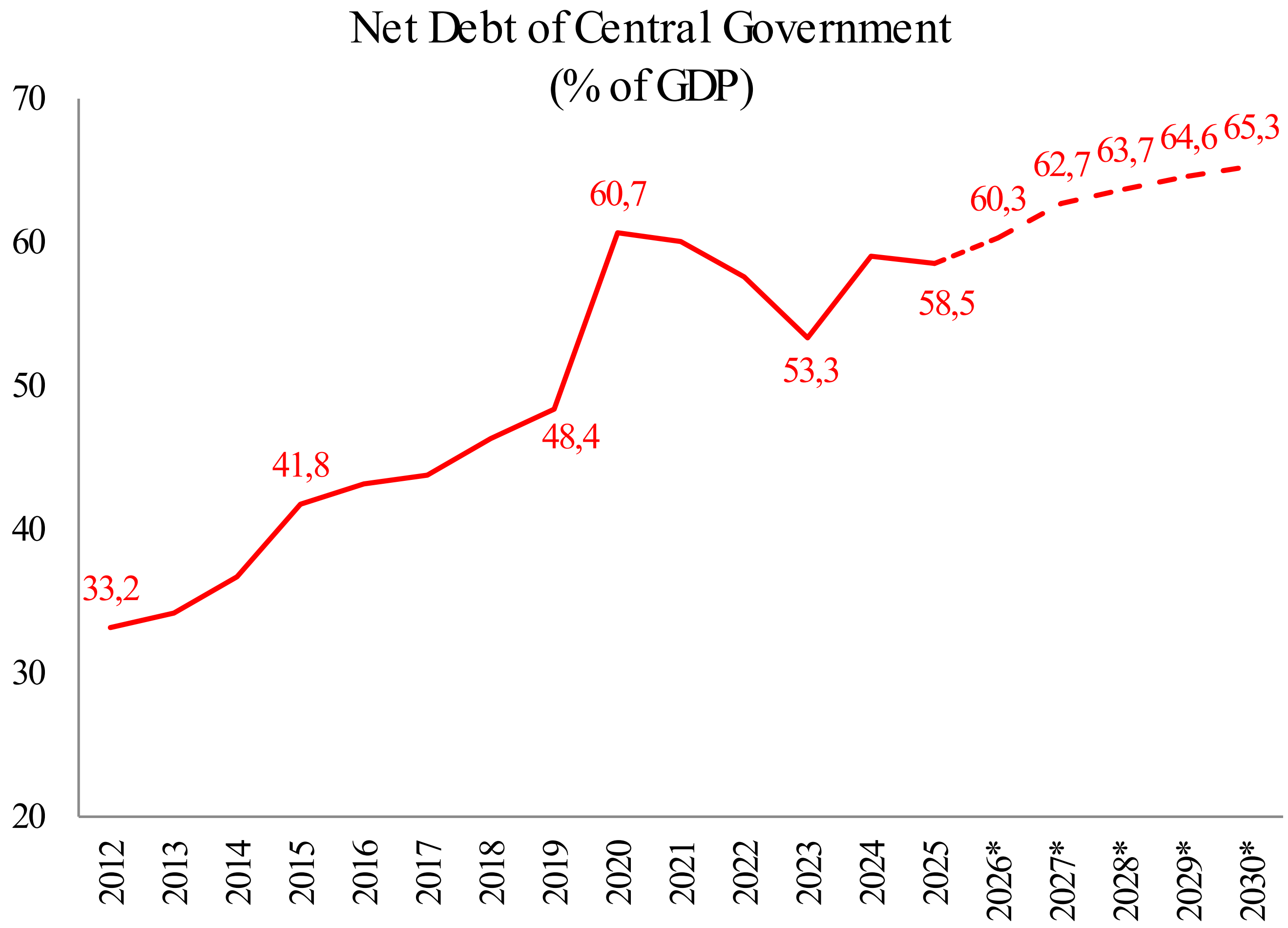
Why do we care? Also, Colombia needs to make a fiscal consolidation asap



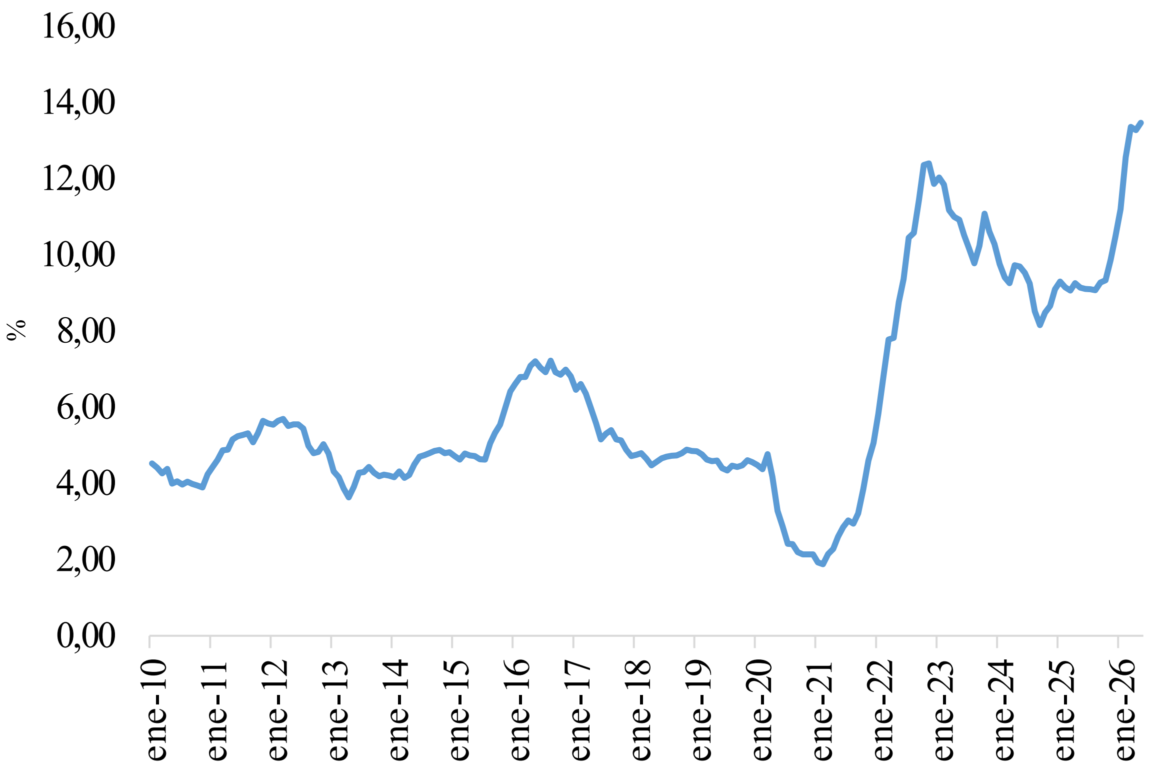
Source: Minhacienda



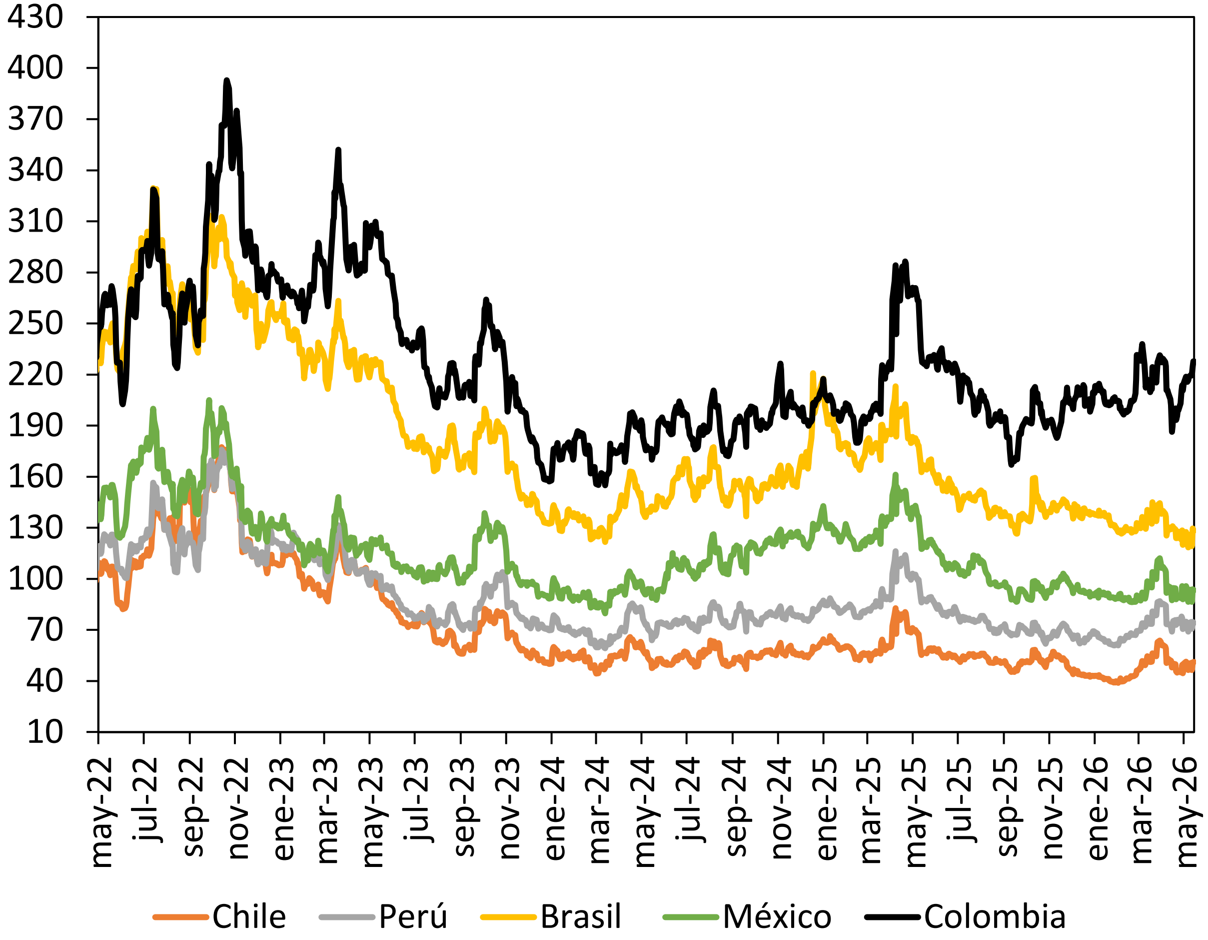
Source: Minhacienda, CARF Forecast

Why do we care? Also, Colombia needs to make a fiscal consolidation asap

1-year Interst rates on Government Bonds



Credit Default Swap 5Y



Some elements of the paper for the Colombian context

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Predictors of fiscal knowledge are: financial asset ownership and age, especially related to people receiving benefits. For Colombia, unlikely people will know about fiscal variables

~99%

of household assets in Colombia not held through Pension Funds are different from Government Bonds

Banco de la República, Financial Accounts

- 36% in deposits and CDs
- 20% in company ownership
- 44% in other pensions, insurance and others

> 80%

of pensions are in the public system, whose pension does not depend on the value of assets like government bonds

Asofondos, Colpensiones

- 1.8 million people

~ 74%

of pensions in the private system do not depend on capital accumulated over the years, so it will not vary with the price of debt

Asofondos

- 0.4 million people

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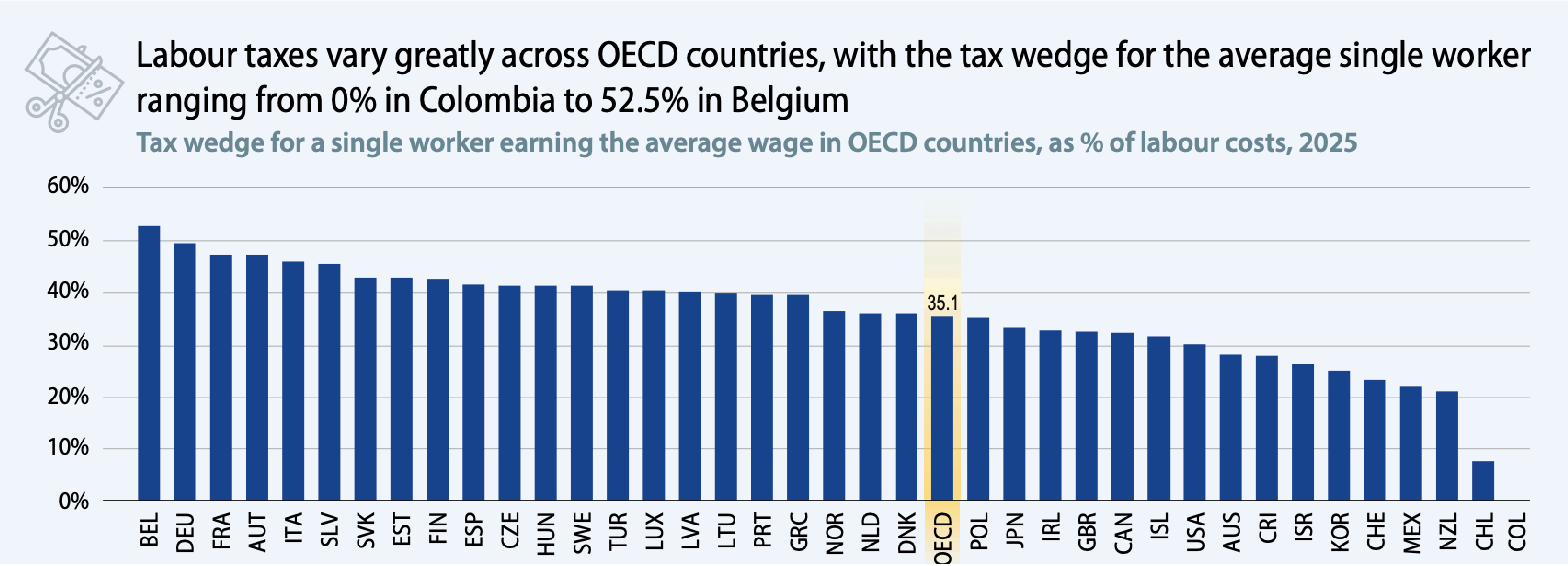
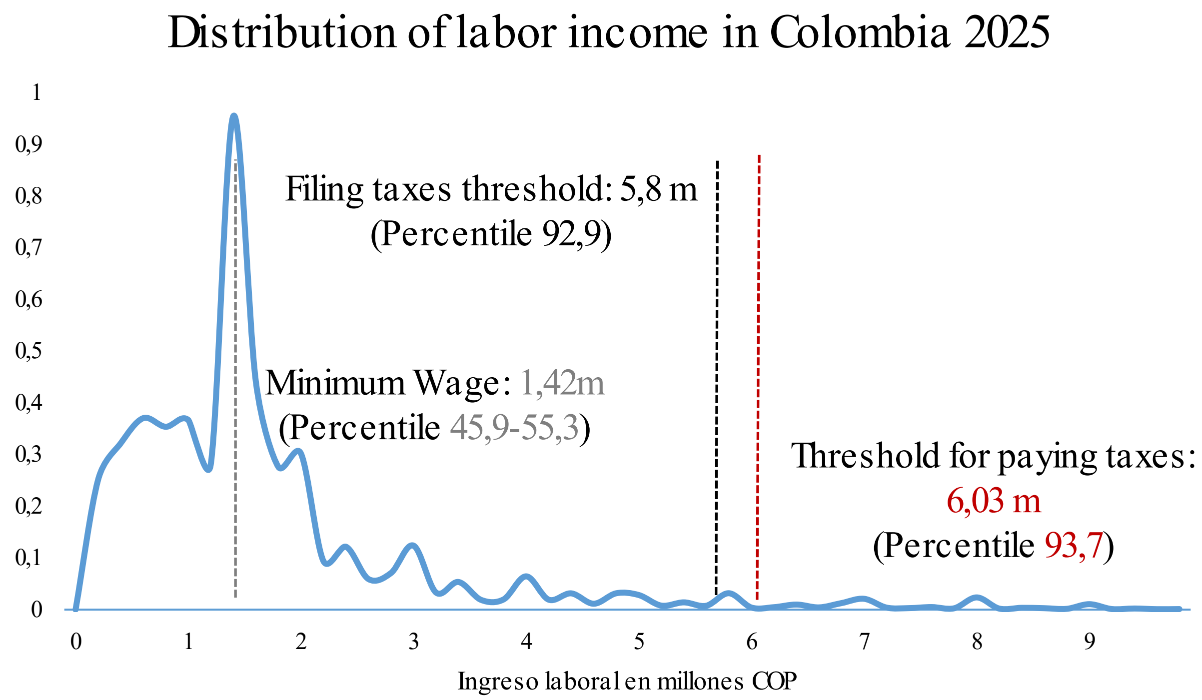
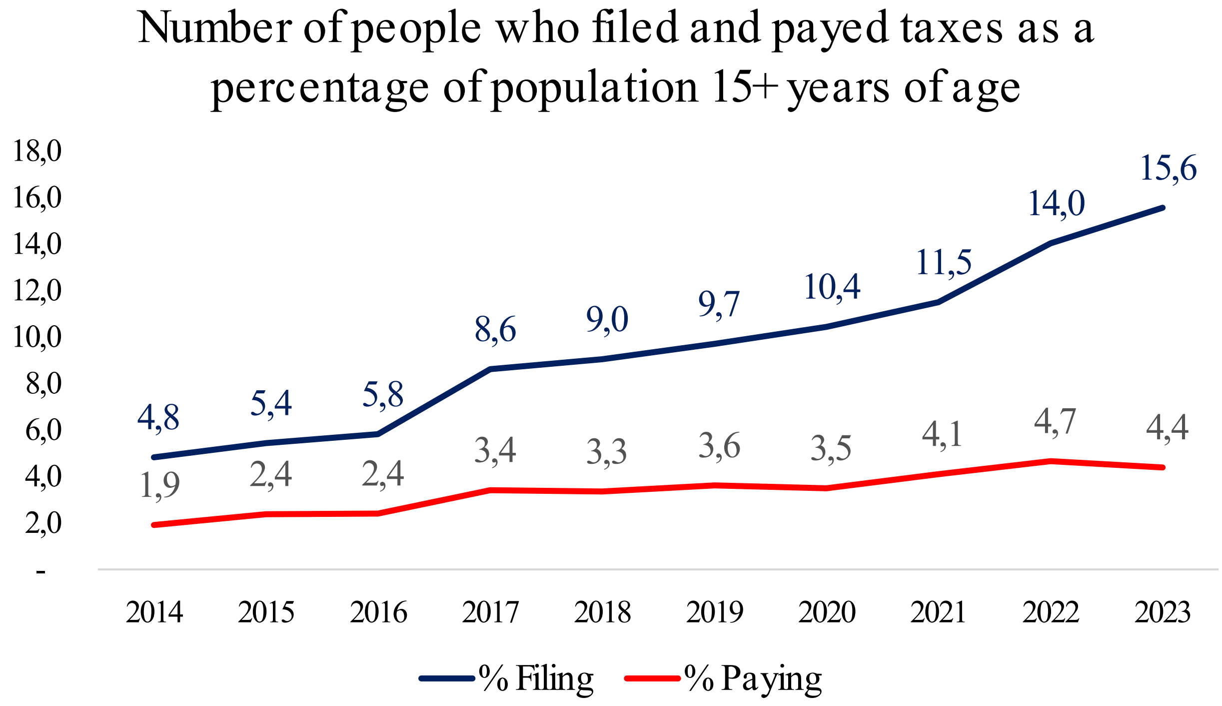
Do people expect tax hikes and to bear the cost themselves? A single worker earning the average wage did not pay personal income taxes in 2025



Source: Taxing Wages 2026, OECD

Do people expect tax hikes and to bear the cost themselves? Maybe some, but very few: challenging for the required fiscal consolidation





Source: DANE, DIAN, own calculations

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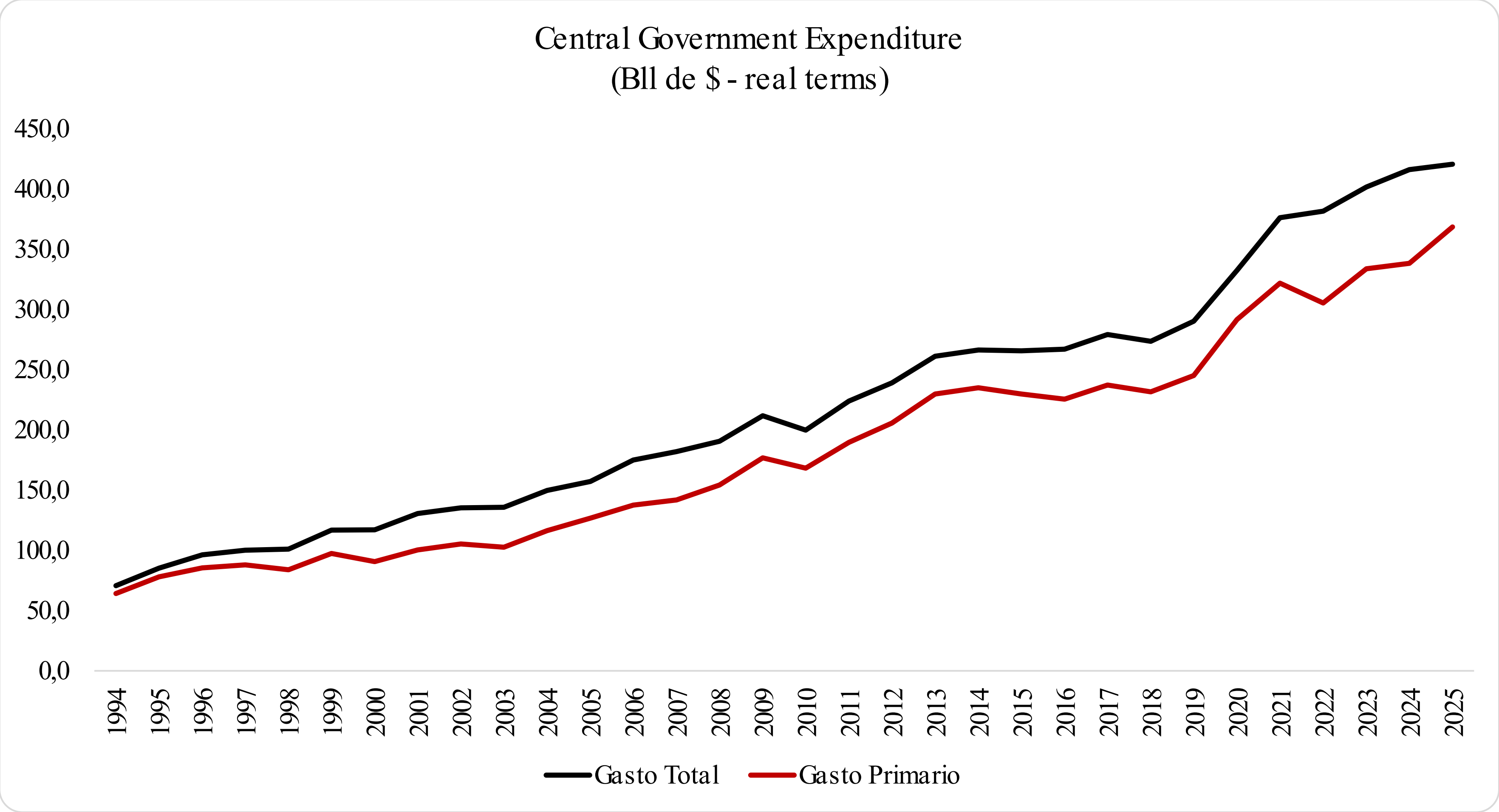
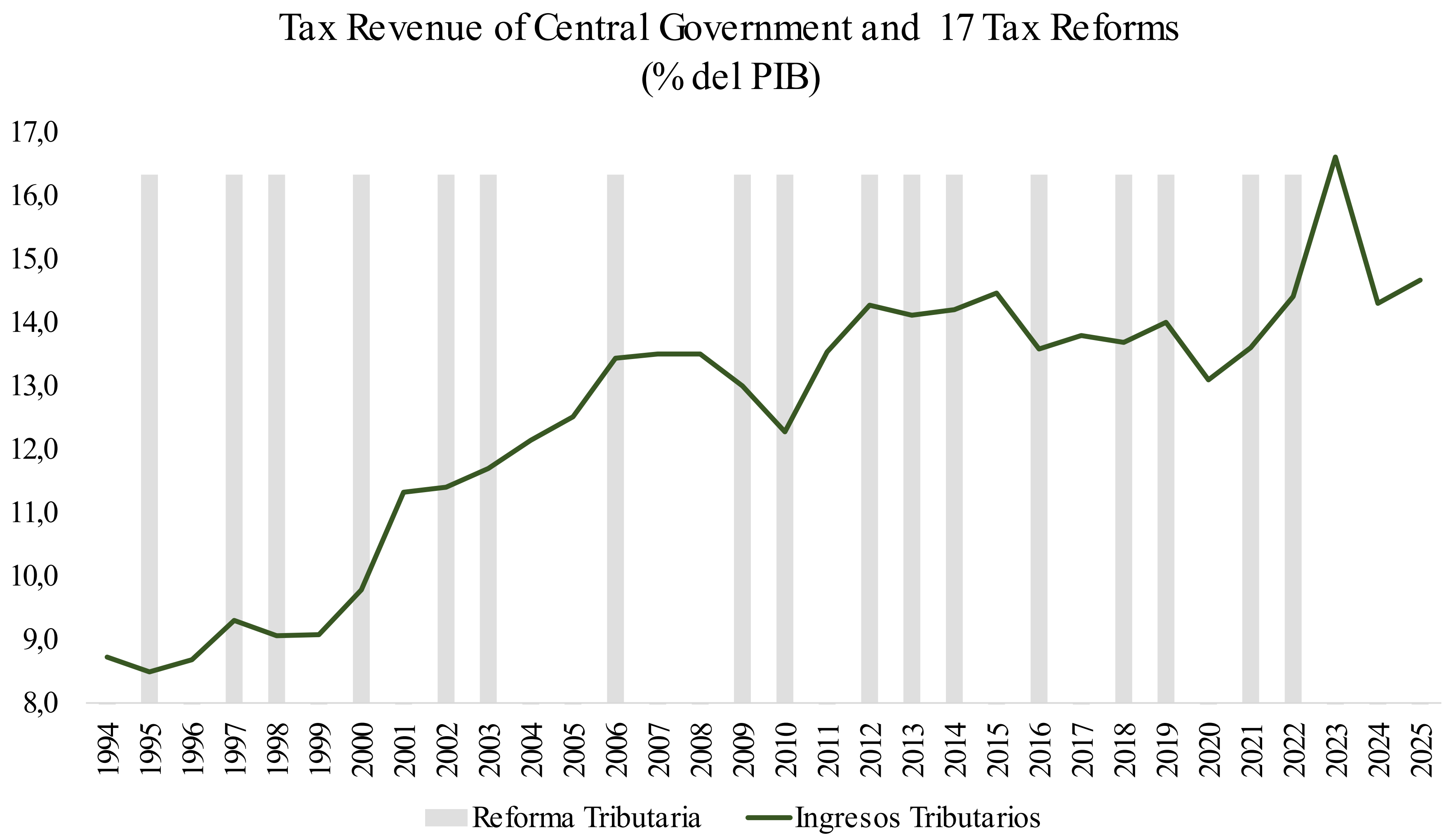
How about fiscal consolidation experiences? Do people actually expect expenditure cuts?



How about fiscal consolidation experiences? From the revenue side, lots of scars (on businesses and a few people), but with poor results



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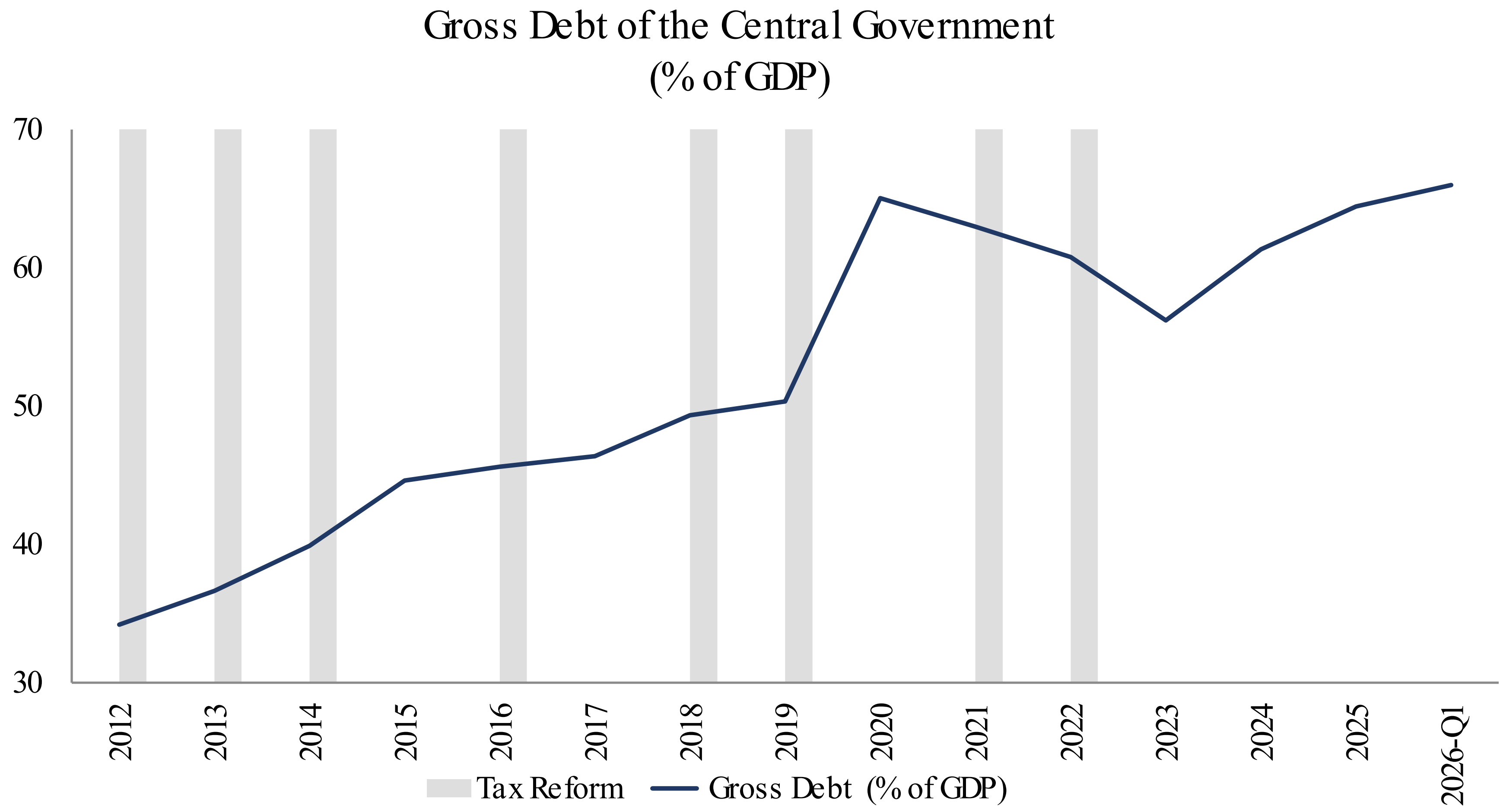

2026-Q1 is the Gross Debt for the first quarter of 2026, divided by 2025 GDP.

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Even though tax revenue is relatively low, and most of the burden falls on businesses and a few people, making a fiscal consolidation is hard

AP

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Conclusion: Great paper, with lots of elements to think about for policy, research

- Opens/broadens an agenda on:
  - ✓ Models
  - ✓ Expectations surveys
  - ✓ Understanding gaps between people and economists
  - ✓ Information, communication, trust and how they may affect/help fiscal consolidation efforts
- Each country is a different case: history matters, tax structure matters
- Fiscal consolidations: How to make people expect tax increases or spending cuts?
  - ✓ Information/Communication vs Trust
- Whose expectations we measure matter and they may convey different information:
  - ✓ Forscasters' for borrowing costs, people's for fiscal consolidations
- One suggestion: It would be great if more of the results could be discussed depending on the type of fiscal consolidation (tax vs spending)

For discussion

- Two questions:

1. Trust is needed for expectations about spending cuts, but cuts destroy trust, how do you think about this loop and what does it mean for fiscal consolidation attempts?

2. Most Colombians have not experienced a fiscal consolidation either through taxes or spending cuts. They have essentially little experience.

   Does your framework suggest this could actually be an advantage if a spending-led adjustment were attempted with strong communication? Or does the trust deficit overwhelm any advantage from a clean slate?

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