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## Household Beliefs About Fiscal Dominance \*

### Abstract

Are the recent large debt-to-GDP increases constraining central banks not to raise rate thereby allowing for inflation persistently above target? The answer to that question can vary with the likelihood individuals put on such a fiscal dominance scenario. We use a customized survey of households in Germany to elicit such priors and design a randomized information treatment to study how fiscal news affects individuals views about long-term inflation expectations. We find that a large majority of households think that it is likely or very likely that fiscal constraints in the EA could constrained the ECB not to raise rate or lead some EA countries to default, with no evidence that one scenario is a substitute for the other. Information on public debt in France and Italy have a positive impact on euro-area debt-to-GDP ratio medium-run expectations as well as on German long-run inflation expectation. The effects are larger for individuals who think there is a higher probability that EA fiscal authorities will be constrained. However, households do not associate this inflationary impact to the ECB lowering its interest rate to help fiscal authorities. At the aggregate, the inflationary impact of non expected increase in debt/GDP is mitigated by the expectations of individuals who do not put a large probability on a scenario where government finances will be constrained.

\* Joint work with P. Andrade, E. Mengus, E. Moench, and T. Schmidt