# Subjective Beliefs and Systematic Debt Cycles in Emerging Economies*

Chun-Che Chi† Kenji Wada‡

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**Abstract**

This paper documents systematic departures from full-information rational expectations (FIRE) in professional forecasts of sovereign bond yields and interbank interest rates across a broad panel of countries. Using a novel dataset of Bloomberg consensus forecasts covering 18 emerging market economies (EMEs) and 13 advanced economies (AEs) from 2009 to 2025, we establish two new stylized facts. At the one-quarter-ahead horizon, forecasters in EME bond markets underreact to the current level of yields but overreact to their own forecast revisions—a co-occurrence that is statistically absent in AE markets. We rationalize these findings by extending the asymmetric attention framework to include overconfidence in signal processing. We show that endogenous asymmetric attention to the output gap relative to the debt-to-output ratio, combined with overconfidence, jointly generates both empirical patterns and these interactions can further amplify the consumption volatility relative to output in a canonical small open economy real business cycle model.

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†Academia Sinica, Institute of Economics. Email: ccchi@econ.sinica.edu.tw; Web: https://www.chunchechi.com

‡National Taiwan University. Email: kenjiwada2402@ntu.edu.tw; Web: https://sites.google.com/nyu.edu/kenji-wada/about