

La serie Borradores de Economía es una publicación de la Subgerencia de Estudios Económicos del Banco de la República. Los trabajos son de carácter provisional, las opiniones y posibles errores son responsabilidad exclusiva del autor y sus contenidos no comprometen al Banco de la República ni a su Junta Directiva.

AUTHOR OR EDITOR

Julian A. Parra

Carmiña O. Vargas

We study financial crises in a small open production economy subject to credit constraint and uncertainty on the value of debt repayments. We find that the possibility of reducing the severity of future crises encourages the central planner (CP) to increase both the crisis frequency and current debt. The CP equilibrium can be implemented by a macro-prudential tax on debt and, only during crises, subsidies on consumption and a tax on non-tradable labor. The welfare gain of implementing such equilibrium is small for the baseline scenario but very sensitive to changes in debt volatility and the economy's degree of openness.

The opinions expressed here do not necessarily correspond neither to the Banco de la República nor its Board of Directors.

Update 31/10/2014 10:23 a.m.