

The series Working Papers on Economics is published by the Office for Economic Studies at the *Banco de la República* (Central Bank of *Colombia*). The works published are provisional, and their authors are fully responsible for the opinions expressed in them, as well as for possible mistakes. The opinions expressed herein are those of the authors and do not necessarily reflect the views of Banco de la República or its Board of Directors.

AUTHOR OR EDITOR

Julian A. Parra

Carmina O. Vargas

Autores y/o editores

[Vargas-Riaño, Carmina Ofelia](#)

We argue that international lenders take into account that taxes (or subsidies) affect borrowers' available income for debt repayments. Using an endowment-economy model, we show that by incorporating this fact into the analysis of financial crises from the pecuniary externality perspective, ex-post interventions are completely ineffective to manage crises and, instead, ex-ante capital controls are useful for correcting the externality that stems from the underestimation of the social costs of decentralized debt decisions.

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

Update 10:30 a.m., 03/05/2016