

Keep in mind

The series Working Papers on Economics is published by the Office for Economic Studies at the *Banco de la República* (Central Bank of *Colombia*). It contributes to the dissemination and promotion of the work by researchers from the institution. This series is indexed at Research Papers in Economics (RePEc).

On multiple occasions, these works have been the result of collaborative work with individuals from other national or international institutions. 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 Carmiña O. Vargas

AUTHORS AND/OR EDITORS

[Vargas-Riaño, Carmiña Ofelia](#)

In a previous paper (Parra-Polania and Vargas, 2015) we modify the financial constraint of a very

---

standard model to incorporate the fact that international lenders take into account that taxes (or subsidies) affect borrowers' income available for debt repayments, and find that ex-post interventions are completely ineffective to manage crises (even though they are financed by taxes that do not entail further distortions) and, instead, macroprudential policies are still able to correct the underestimation of the social costs of decentralized debt decisions. These results are obtained under the assumption, also common in the related literature, that there is a balanced-budget fiscal policy. In this paper we extend our previous work to consider countercyclical fiscal policies (keeping the alternative financial constraint). We show that some combination of policy interventions could completely avoid crises, but under restrictive conditions.

The series Borradores de Economía is published by the Economic Studies Department 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.