

[Download](#)

Keep in mind

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

De Castro-Valderrama, Marcela

The series [Borradores de Economía \(Working Papers on Economics\)](#) contributes to the dissemination and promotion of the work by researchers from the institution. On multiple occasions, these works have been the result of collaborative work with individuals from other national or international institutions. This series is indexed at Research Papers in Economics (RePEc). The opinions contained in this document are the sole responsibility of the author and do not commit Banco de la República or its Board of Directors.

Publication Date

Monday the 6th of December, 2021

Abstract

I propose a general equilibrium model with a quasi-hyperbolic discounting government that optimally decides upon using creative accounting in order to evaluate a balanced budget rule and a debt rule. In that context, I find that a binding balanced budget rule could fail to properly constrain public overindebtedness when government uses creative accounting while a debt rule is effective, since targets are set on total public liabilities. Results suggest that a balanced budget fiscal rule can also deteriorate welfare due to the higher interest rates derived from doing operations under the line, implying future expenditure cuts that are harmful for households, who value public goods and services. A debt rule is also preferred for its capacity to reverse some welfare losses generated by the present-biased government.