

Borradores de Economía - Debt taxes during crises, a blessing in disguise?

Download 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 Parra-Polanía, Julián Andrés Vargas-Riaño, Carmiña Ofelia

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: Tuesday, 16 of April 2024 **Abstract**

Models with an occasionally binding credit constraint have been used to analyze financial crises and previous literature has highlighted that the specific form of this constraint is decisive for policymaking conclusions. What are the welfare effects of implementing a policy that is appropriate for a specific type of constraint when the economy is actually facing a different one? We provide an answer by analyzing the implementation either of ex ante (or macroprudential) vs. ex post debt taxes in four possible collateral constraint cases (depending on whether creditors assess current or future and total or disposable income of debtors). Our main conclusion is that a debt tax applied only during potentially constrained periods (i.e., ex post) is a more favorable intervention if the policymaker does not know which credit constraint is facing or if it is more likely to be facing a disposable-income constraint (either for current or future income).