Banco de la República | Colombia
Somos el banco central de Colombia

Macroprudential vs. Ex-post Policy Interventions: when Domestic Taxes are Relevant for International Lenders

Working Paper No. 879 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
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.

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