

lump-sum taxes, T_t^L . Let D_t^P denote household foreign-currency debt; the representative household's end-of-period budget constraint is thus given by

$$D_{t+1}^P = (1 + r_t^W)D_t^P - Y_t^T - z_t^{-1}Y_t^N + (1 + \tau^C)C_t + I_t^P + T_t^L, \quad (11)$$

The government issues foreign-currency denominated debt, D_t^G , at the world interest rate r_t^W , to finance its deficit. The government's flow budget constraint is thus given by

$$D_{t+1}^G = (1 + r_t^W)D_t^G + G_t - T_t. \quad (26)$$