We revisit Uribe's `Fiscal Theory of Sovereign Risk' advocating that there is a trade-off between stabilizing inflation and suppressing default. We develop a class of dynamic stochastic general equilibrium model with nominal rigidities and compare two de facto inflation stabilization policies, optimal monetary policy and optimal monetary and fiscal policy. Under the optimal monetary and fiscal policy, not only the nominal interest rate, but also the tax rate work to minimize welfare costs through stabilizing inflation. Under the optimal monetary both inflation and output gap are completely stabilized although those are fluctuating under the optimal monetary policy. In addition, volatility on the default rate under the optimal monetary policy is considerably lower than one under the optimal monetary policy. Thus, there is not a trade-off between stabilizing inflation and suppressing default.